McDonald's Corporation
Twenty-fifth Anniversary

1979 Annual Report


McDONALD'S

Whether it's a fifth birthday—or a 25th, McDonald's is a good place to celebrate. These youngsters are enjoying a party complete with a Ronald McDonald cake, McDonald's tasty products and McDonaldland party favors.

McDonald's 1979 financial highlights:

Net income: $188,608,000, up 16 percent.
Net income per share: $4.68, up 17 percent.
Systemwide sales: $5,385,000,000, up 18 percent.
Revenues: $1,937,935,000, up 16 percent.

Total assets: $2,354,006,000.
Return on average assets: 19.4 percent.
Return on average equity: 21.6 percent.

McDonald's

From the kitchen of
George A. Cohon
President

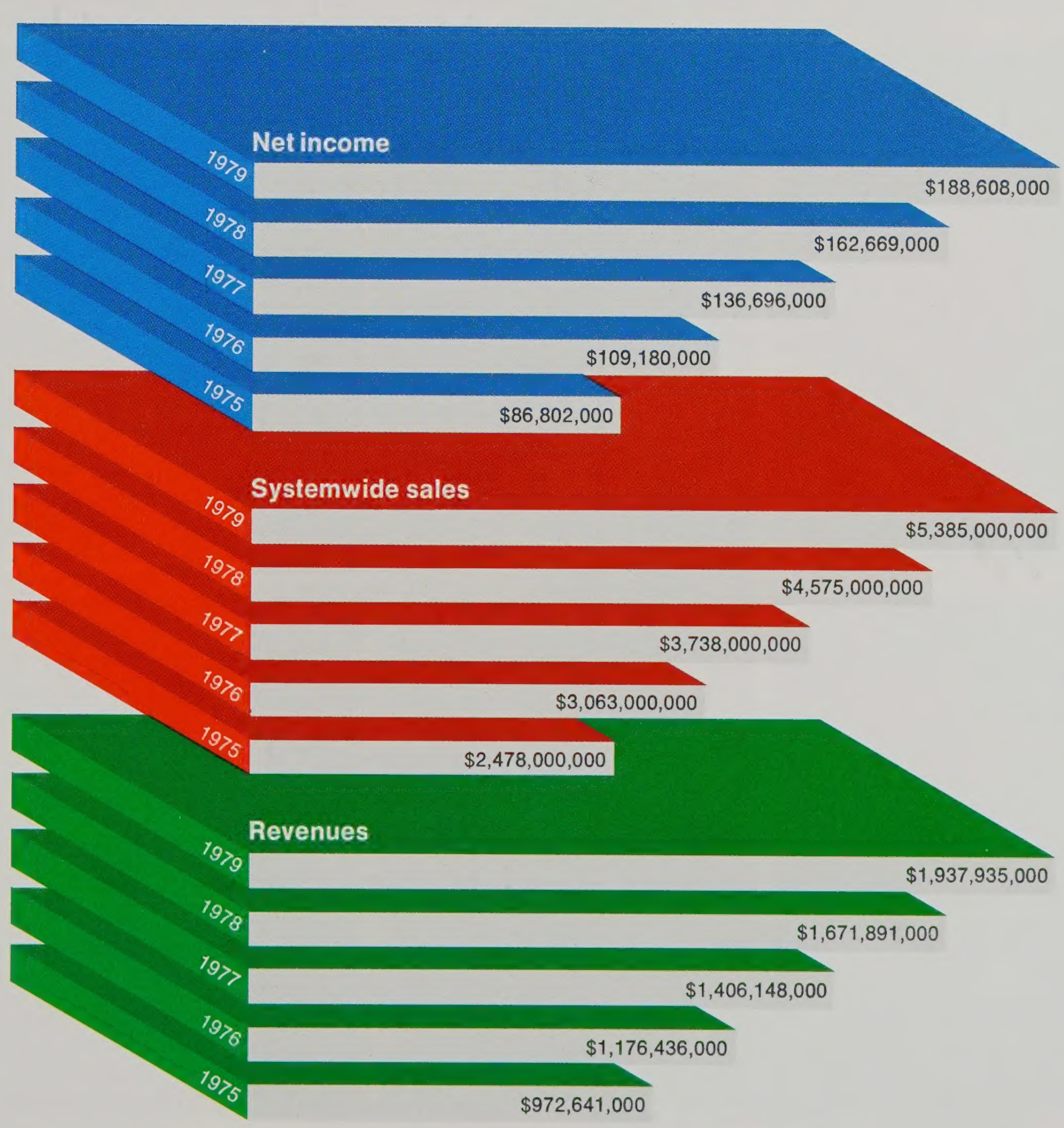
Thought you might enjoy seeing a copy of our Annual Report

SEP 17 1980

George A. Cohon

Contents

The directory of restaurants will no longer be included in the annual report but will be a separate publication each year.



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McDonald's; Ronald McDonald; McDonald-land; Hamburger University; Golden Arch Logo; The General Architectural Design Of McDonald's Restaurants; Quarter Pounder Sandwich; Big Mac Sandwich; Egg McMuffin Sandwich; You Deserve A Break Today; We Do It All For You; Look For The Golden Arches; McDonald's All-American High School Band; Nobody Can Do It Like McDonald's Can; Filet-O-Fish Sandwich; McDonald's All-American High School Basketball Team; Ronald McDonald House; Go For Goodness At McDonald's; Those Who Know Go To McDonald's; McDonald's Is Your Kind Of Place.

To our stockholders:

On April 15, 1980, McDonald's celebrates its 25th anniversary. The past 25 years have been years of progress for your Company, years of important milestones, among them: 1955, Ray A. Kroc opened first restaurant in the system; 1956, opened first franchised McDonald's restaurant; 1961, held first classes of Hamburger University; 1965, offered McDonald's stock to the general public and began menu expansion; 1966, introduced Ronald McDonald; 1967, began national advertising; 1968, changed restaurant design from red-and-white tile building to current design; 1971, opened first McDonald's restaurant outside North America; 1973, elected Fred L. Turner chief executive officer; 1976, paid first cash dividend on common stock.

During its 25-year history, McDonald's has served 31 billion hamburgers and achieved total systemwide sales—sales by all franchised, Company-owned and affiliated restaurants—of $26,968,000,000. Combined systemwide sales for the past five years were $19,239,000,000—more than three times the sales of the previous five-year period and approximately 2½ times the total sales of the Company's first 20 years. McDonald's continuing growth has been recognized throughout the business world. Recently, when Fortune Magazine selected the 10 "business triumphs" of the 1970s, McDonald's was among them.

In 1979, for the first time in your Company's history, McDonald's reached $5 billion in systemwide sales and $1 million in average annual sales of individual restaurants open 13 months or more. Moreover, during the year the Company opened a record number of new restaurants and introduced a major new advertising theme for the United States: "Nobody can do it like McDonald's can."

Net income for the year ending December 31, 1979, was $188,608,000, an increase of 16 percent or $25,939,000 above the 1978 total. Net income per share was $4.68, 17 percent or $.68 more than a year ago.

Systemwide sales totaled $5,385,000,000, a growth of 18 percent or $810,000,000 over the 1978 sales.

Revenues for the past year were $1,937,935,000, an increase of 16 percent or $266,044,000 more than the total achieved in 1978.

At the close of 1979, stockholders' equity was $952,166,000, an increase of 20 percent over 1978. Long-term debt at year-end was $966,123,000, an increase of 23 percent over the previous year; this increase relates to the larger number of new restaurants added during the year, refurbishing expenditures on existing restaurants and an increase in the number of restaurant businesses purchased from franchisees.

In the third quarter the Company sold to the public at par $50,000,000 in 10¼ percent sinking fund notes due in 1989. During 1979 the Company also expanded its long-term lines of credit to $175,000,000, an increase of $75,000,000 over the prior year. Promissory notes were increased by approximately $79,000,000.

Return on average assets for 1979 was 19.4 percent; and return on average equity, 21.6 percent.

Working capital generated from operations grew 22 percent during 1979, to $311,203,000.

Your Company paid $.51 per share in dividends in 1979, compared with $.32 in 1978, an increase of 59 percent.

McDonald's added a record 562 new restaurants during 1979 bringing the total at year-end to 5,747; of those restaurants in operation at year-end, 4,857 are located within the United States and 890 in 26 other countries and territories. Among the year's new restaurants were the first McDonald's in Brazil and Singapore, as well as the 300th in Canada, the 200th in Japan, the 100th in Germany and the 100th in Australia. At year-end an additional 138 restaurants, including 31 in international markets, were under construction.

The individual McDonald's restaurant open 13 months or more averaged $1,000,000 in sales during 1979, compared with $942,000 in 1978.

Total sales for restaurants located outside the United States were $936,846,000 in 1979, a 29 percent growth over 1978 and 89 percent over 1977. McDonald's international restaurants contributed 17 percent of total systemwide sales and 20 percent of the Company's revenues.

The Financial Accounting Standards Board, in a pronouncement issued in 1979, required that certain publicly owned companies include in their annual reports this year information about the impact of inflation. Among other things, this information indicates that the ownership of real estate, as well as the balance between long-term debt and equity, has helped to cushion your Company against the inflation that is so pervasive throughout the world.

During the past year the Company's Board of Directors made several appointments: Michael R. Quinlan was named to the Board, bringing the number of Board members to 10. Mr. Quinlan also was elected senior executive vice president and chief operations officer of the Company; Richard J. Christian was elected a regional vice president; Clifford H. Raber and Raymond S. Caruso, vice presidents; Jerry R. Lane, Richard G. Starmann and Berthold L. Weller, assistant vice presidents.

As we pause to reflect upon the past 25 years, we are proud of McDonald's quality products and the acceptability they have achieved around the world; proud of McDonald's people—franchisees, restaurant staffs and corporate employees, their high standards of service and the role they play in their communities; proud of the clean, pleasant McDonald's restaurants; proud of the acceptance and loyal support McDonald's has received from its customers on five continents. So that you can share in this pride, we have prepared a special section on the Company: its publics, products, people, places, personality and purpose. The section begins on page 5.

As McDonald's celebrates this silver anniversary milestone, we look forward to your Company's next 25 years of business. We envision increased expansion of the system by the placing of additional restaurants in both new and existing markets in the U.S. and around the world.

In closing, we cordially invite you to join us at the Annual Meeting of Stockholders at 10 a.m. Tuesday, May 27, 1980, in the Oak Brook Theatre, Oak Brook, Illinois.

Ray A. Kroc
Founder and
Senior Chairman of the Board

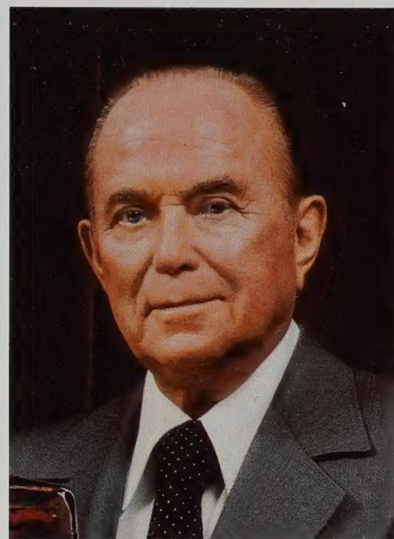
Fred L. Turner
Chairman of the Board
and Chief Executive Officer

Edward H. Schmitt
President and
Chief Administrative Officer

Richard J. Boylan
Senior Executive Vice President
and Chief Financial Officer

March 8, 1980

Board of directors


Ray A. Kroc


Richard J. Boylan


Donald G. Lubin

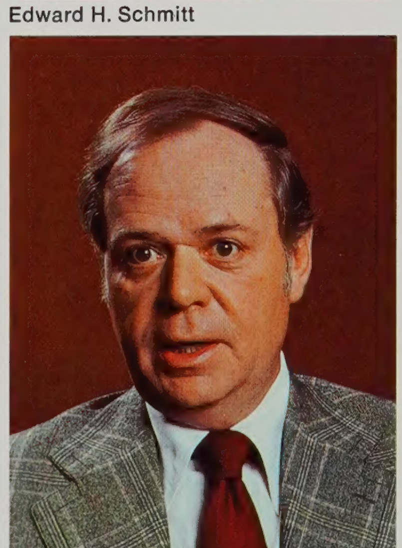

Gerald Newman

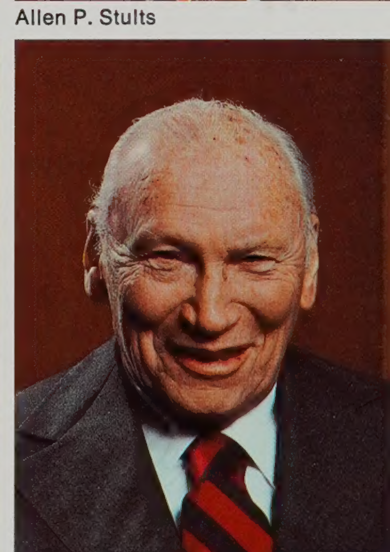

Michael R. Quinlan


Edward H. Schmitt


Allen P. Stults


Robert N. Thurston


Fred L. Turner


David B. Wallerstein

Our founder, Ray A. Kroc

In 1955 our Company was just one restaurant known only to the people of one suburban area near Chicago. Twenty-five years later, as McDonald's celebrates its silver anniversary, it has grown into a system of restaurants that spans five continents and has the distinction of being the largest foodservice organization in the world.

This phenomenal success would never have been possible without the vision and determination of one man, Ray A. Kroc, the former salesman, radio station music director and musician who in 1955, at the age of 52, opened the first restaurant in the McDonald's chain.

Mr. Kroc built his personal philosophy around the phrase, "Nothing in the world can take the place of persistence." Through persistence, hard work and creative know-how, he gave rise to a company that is a remarkable example of American business opportunity.

As Mr. Kroc built McDonald's, he energized an industry: the fast-service restaurant industry. Today in the United States, its annual sales total more than $21 billion. Mr. Kroc has done for his industry, Pulitzer Prize-winning columnist George F. Will has written, "What Isaac Singer's machine did for clothing, what Charles Walgreen did for drugs, what Aaron Montgomery Ward, Richard Sears, Alvah Roebuck and F. W. Woolworth did for dry goods, what Gail Borden did for condensed food, what Philip Armour and Gustavus Swift did for fresh meat . . . Kroc has been called 'the service sector's equivalent of Henry Ford.' "

From his current vantage point as Senior Chairman of the Corporation's Board of Directors, Mr. Kroc remains somewhat awed at the worldwide acceptance of his McDonald's "dream."

"As I look over McDonald's history," he says, "I feel a tremendous amount of pride. We've had principles right from the start. Even in the early days when we were poor, we never scrimped in any area—in quality, cleanliness, service, value or in opportunities we afforded our employees. We grew up the right way.

"Yet, I must say that, for me, my biggest accomplishment was opening that first restaurant in Des Plaines, Illinois." (Helping Mr. Kroc was a young man named Fred L. Turner who hoped to be a franchisee, but was convinced by Mr. Kroc to work with the Company in restaurant operations. Today Mr. Turner is McDonald's Chairman of the Board.)

The first restaurant in the McDonald's system, a red-and-white candy-striped building in Des Plaines, Illinois, opened April 15, 1955.

Mr. Kroc also lists among his major satisfactions his ability to help other entrepreneurs, the McDonald's franchisees, build successful restaurant businesses. "Our restaurants have provided great opportunities for men and women who are members of our franchise family. For their part, these people have worked long and hard, and made an invaluable contribution to the growth and prosperity of the entire system.

"Even today," Mr. Kroc says, "there is nothing more fun for me than rubbing elbows with a group of McDonald's people and talking shop."

And, there is nothing more important to Mr. Kroc than sharing his success, something he has accomplished by contributing millions of dollars to charities, principally in the health fields. "It is gratifying to me," he adds, "to see that our corporate people and so many franchisees follow my beliefs in these matters and consistently contribute to the betterment of the communities where we are located."

Mr. Kroc terms the last 25 years "the most exciting of my life." Where does he see the Company growing during the next quarter century? "I'm a businessman, not a fortune-teller," he explains, "but what I see in the future is unlimited potential for McDonald's. I see us creating new markets, both at home and abroad, and meeting new consumer foodservice needs around the world."

The famous Golden Arches sign now says "30 billion served." That means hamburgers, of course— hamburgers served one at a time to McDonald's customers in countries around the world. Those customers keep coming back to McDonald's because our restaurants offer quality: Fresh, top-quality products. Fast service. A clean and wholesome atmosphere. A good value for the dollar— or franc or deutschemark or yen. In just 25 short years, McDonald's total sales have reached $26,968,000,000. That's millions of satisfied customers, billions of tasty products, thousands of convenient restaurants. In celebration of McDonald's 25 years of growth, this section of the 1979 Annual Report reviews McDonald's business as it is today: the public we serve, our products, our people, the places we're located, our personality and our purpose.

Growing numbers of customers around the world . . .

Every day millions of people around the world enjoy quality food at McDonald's restaurants. McDonald's could not be the success it is today without the support of these people: our customers. To paraphrase one of our earlier advertising themes: We do it all for them.

We've been doing it all for them for 25 years. On April 15, 1955, the first restaurant in the McDonald's chain opened in Des Plaines, Illinois, a suburb of Chicago. The people who patronized that first McDonald's were typical of those who visited all our early restaurants. Suburbanites, they came from the community surrounding the restaurant. Since then a whole generation has grown up with McDonald's.

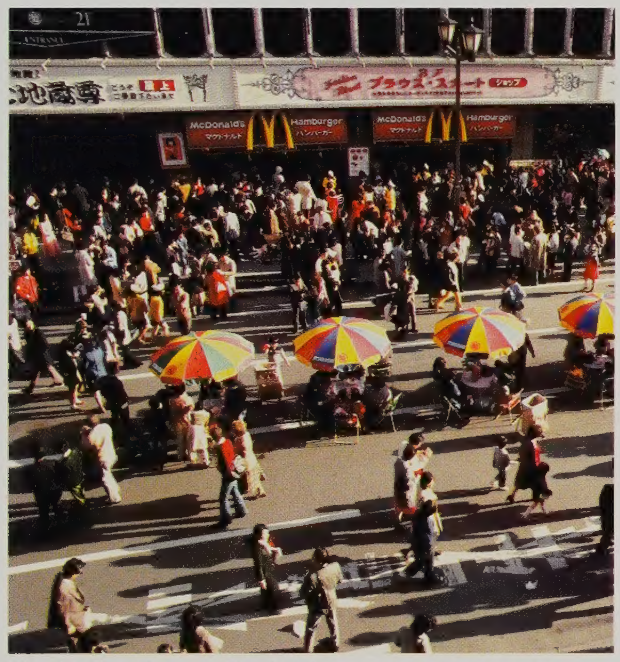
As McDonald's became more widely known, our customers began to seek our food not only where they live, but also where they work and play. So since the late 1960s, our customer base has grown to include not only the suburbanites, but also urban residents, small town residents and people of other lands.

McDonald's developed in a time of rapid social change. The pace of life was quickening. An increasing number of women were entering the workforce. The typical consumer was eating more and more meals away from home. McDonald's was at the forefront of the industry that met the increasing consumer need for fast, convenient, nutritious, economical meals —in other words, the eating-out needs of the masses of people.

Today McDonald's customers are urban, suburban and small-town residents; white-collar workers, blue-collar workers and homemakers; the rich and the poor; the young and the old; the married and the single. McDonald's customers are found in 27 countries and territories around the globe. They order our products in at least 12 languages. They are equally divided between men and women.

McDonald's customers literally include a cross-section of the public. A recent Company research study concluded that the majority of the U.S. population between the ages of 16 and 65 visit McDonald's at least once during an average six-month period.

Most of the people making these visits, both domestically and internationally, are "neighbors," for the typical McDonald's draws about three-quarters of its customers from a three-mile radius surrounding the restaurant.



The McDonald's on the busiest street in the world, the Ginza in Tokyo, Japan.

Approximately one-fifth of our customers in the U.S. come alone to McDonald's, with the remainder coming in groups. The group most frequently visiting is the family, which accounts for approximately 40 percent of our customers. Friends, fellow workers and business associates make up the balance of business generated by groups.

Why do these people patronize McDonald's? Their answers vary according to their age.

Children say that the restaurants are fun and exciting, that the food is good.

Teenagers find that McDonald's is a good place to eat with friends.

Adults, who account for about two-thirds of our total business, like our restaurants because they are fast and convenient; because the food is high-quality and a good value; and because in today's ever-changing world, McDonald's is reliable—no matter where our customers visit a McDonald's restaurant, they can count on a familiar, pleasant experience.

top-quality products and production technology . . .

McDonald's has been responsible for making the hamburger and French fries one of the world's most popular meals.

The Company began by selling a limited menu that included 15-cent hamburgers, 19-cent cheeseburgers and 10-cent French fries, as well as shakes and soft drinks.

McDonald's was 10 years old before it made its first menu change, the addition of the Filet O'Fish. The world-famous Big Mac debuted in 1968; the Quarter Pounder, in 1972; and the Egg McMuffin, in 1973. Other new menu items over the years have included McDonaldland cookies, a full breakfast menu and sundaes.

New products, which undergo extensive research and testing before being added to the menu, have attracted new customers to McDonald's and encouraged present customers to visit our restaurants more often. However, McDonald's has purposely controlled the size of its menu in order to maintain product quality, serve customers quickly and provide a good value.


A hamburger, the sandwich that made McDonald's famous around the world.

One major factor of McDonald's success is that its food has the same consistent good taste from London to Los Angeles, from Tokyo to Toledo, from Winnipeg to Wichita. That's because McDonald's products are supplied, prepared and served in accordance with the Company's quality and processing controls.

Although the Company sells no food, foodservice supplies or equipment to its restaurants, it insists that all use top-quality, uniform products.

For example, the meat in McDonald's hamburger sandwiches is 100 percent pure beef, free of additives, extenders, preservatives or flavor enhancers of any kind. The beef is of higher quality than the meat sold as hamburger in most retail food stores.

McDonald's French fries are made from Russet Burbank potatoes, prepared under a patented process that gives them their world-famous taste.

McDonald's fish filets, made especially for the Company, are inspected under the U.S. Department of Commerce's Voluntary Fisheries Products Inspection Program. In 1978 the department presented an award to McDonald's for its participation in the program.

McDonald's uses fresh Grade A eggs which are cracked in the restaurant just prior to preparation. The eggs are cooked in Grade A butter.

McDonald's buns contain enriched wheat flour.

Our breakfast meats are pure pork Canadian bacon and sausage.

And, the restaurants serve only pure orange and tomato juice, both packaged according to USDA Grade A standards.

Providing the raw food products and restaurant supplies to both franchised and Company-owned McDonald's restaurants are independent food processing plants and distribution warehouses which have geared their own businesses to serving McDonald's needs.

To ensure that these independent suppliers comply with McDonald's strict specifications in all areas—in handling, shipping, preparing and storing the products, the Company's quality assurance department continually checks the distribution centers, processing plants and even the potato fields.

Once the products reach the restaurants, they encounter a state-of-the-art preparation system that combines trained personnel with advanced foodservice technology.

So that each product provides excellent taste, quality and nutritional value, McDonald's has scientifically established step-by-step cooking procedures, with optimum cooking times and temperatures that have been determined through extensive research and product testing. A number of these cooking procedures are controlled by electronic computers.

McDonald's was the first in the fast-service food industry to use computers in its preparation processes. In 1962 the Company developed a French fry computer that adjusts frying time to correspond with the temperature of the shortening. Since then additional computerized equipment has been developed for other product preparation.

Other equipment innovations include an automated meat timer that tells the grill person precisely when to turn the hamburger patties, an automated touch tower for drawing soft drinks and, for shake production, a change from the Multimixer machine to the more efficient direct-draw machine, which dispenses finished shakes.

Harvard Business School professor Theodore Levitt attributes McDonald's success to having "created a highly sophisticated piece of technology . . . by applying a manufacturing style of thinking to a people-intensive service situation."

Ray Kroc puts it another way. "At McDonald's," he says, "we take the hamburger business more seriously than anyone else does."


McDonald's

dedicated people—franchisees, restaurant managers, crew and corporate staff . . .

People are—and always have been—the most important ingredient in the McDonald's system.

In the 1950s the average McDonald's restaurant employed a management team of two plus about 25 crewpeople, each wearing crisp white shirts and dark trousers. Today the restaurant staff has more than doubled in size and, in some cases, has tripled or even quadrupled. The managers and crewpeople now dress in colorful designer-styled uniforms.

As McDonald's has grown, the jobs in the restaurants have become more sophisticated and more challenging.

Consider the franchisee: This role is significantly more broad-based than it was in the mid-1950s when a McDonald's restaurant's annual volume approximated $200,000. First of all, today many franchisees operate more than one restaurant. If, for example, the franchisee has two average McDonald's, he or she heads a business with $2 million in annual sales. The franchisee owns and operates this enterprise, and therefore, must have the day-to-day involvement, business knowledge and

McDonald's training, thorough and sophisticated throughout the world.

management ability to direct it.

Over the years the role of the restaurant manager also has grown in sophistication. With a large staff to supervise and direct, with more advanced equipment and operational techniques, the manager's position carries considerable responsibility and requires extensive training and career preparation.

The importance of the crewperson has grown, too, with the growth of the system. The crewperson of today works with much more sophisticated equipment and operational techniques than did his or her counterpart 25 years ago.

Although the McDonald's people usually seen by the general public are those who work in the restaurants, McDonald's has another important "crew" behind the scenes: our corporate staff. In the corporate headquarters in Oak Brook, in the regional offices in the U.S. and in other local offices around the world, the Company employs some 3,400 people. They are responsible for the development and maintenance of the McDonald's system.

Among them are specialists in restaurant operations, real estate, construction, marketing, purchasing and quality assurance; lawyers, financiers, accountants, research engineers, architects and home economists; professionals in communications, computers, personnel and training; a clerical staff; and all the other skilled people needed to run a major corporate entity like McDonald's.

For McDonald's people the success of our system has created significant opportunity.

The franchisee has the opportunity to own his or her own business, a business that offers the potential for financial and personal rewards.

The corporate person has the opportunity to build a career with a major, growing firm. (Several of McDonald's key management people, including Chairman Fred Turner, the first line employee in Ray Kroc's fledgling company, have been with McDonald's since its early days. And, McDonald's corporate officers average more than 12 years of service with the Company.)

The manager of a franchised restaurant business has the opportunity to play a major role in that enterprise; the manager of a Company-owned restaurant has the opportunity to develop and fulfill his or her personal ambitions within the Corporation.

And, the individual has the opportunity—particularly because of the flexibility in the restaurant's work scheduling—for a first job or supplementary job.

McDonald's is known worldwide for the excellent training it provides franchisees, managers and crewpeople. McDonald's prefers to promote from within—to "grow its own" management people; thus, training is geared to developing an individual's total potential.

Almost 17,000 McDonald's franchisees and managers have graduated from Hamburger University, the Company's international management training center. Its first class was held in 1961 in the basement of a Chicago-area restaurant; since 1968 Hamburger U. has been housed in an ultra-modern facility in Elk Grove Village, Illinois.

In the early days the H.U. curriculum centered on the technical expertise franchisees and restaurant managers needed to operate a restaurant. In recent years the curriculum, which is built on a college-type format, has expanded to include management sciences so that graduates also will have people and capital management skills. Besides preparing managers for the challenges facing them in the restaurant, H.U. helps generate pride and esprit de corps within the management family.

Besides the H.U. training, the Corporation creates additional training tools that managers and crewpeople use at regional training centers and in the restaurants. Ranging from videotapes to cartridge films, programmed learning


McDonald's
welcome

manuals and guidebooks, these tools are combined with on-the-job training.

The Corporation believes that open communication among the restaurant operators, corporate staff and management is essential to the future success of the system; thus, the Company places corporate support systems as close as possible to the individual restaurants. The United States, for example, is divided into five zones which are further subdivided into regions. Each region has a headquarters office that is completely staffed with not only operations experts, but also marketing, real estate, construction, purchasing, training, personnel and accounting professionals.

To ensure good communication between the franchisees and corporate management, McDonald's has established the NOAB, the National Operators Advisory Board, a representative body of 44 franchisees, two from each region, who periodically meet with top management. Similar regional boards communicate with regional management.

restaurants built for convenience, in convenient locations . . .

That first McDonald's restaurant, which opened in Des Plaines, Illinois, in 1955, was a small red-and-white candy-striped building highlighted by two golden arches. The sparkling clean kitchen was open to public view. At the counter customers bought hamburgers and French fries by the bagful, carrying them to their cars.

At the close of 1979, there were 5,747 McDonald's restaurants in operation, including 890 outside the United States.

The first McDonald's were built in suburban locations, along highly traveled streets or at busy intersections, places that were easily accessible to the driving public. These restaurants met the need of the 1950s consumer for quick, inexpensive take-out meals served in a wholesome atmosphere.

Over the years McDonald's has continued to anticipate and meet consumer needs. By the late 1960s, when Americans were eating away from home more often and expecting more restaurant amenities, McDonald's made the decision to install seating. At the same time the entire restaurant building was redesigned, taking on the more subtle mansard-roof look now recognizable throughout the world.

As more families visited McDonald's, the Company began building larger restaurants and providing more parking space. The typical free-standing restaurant constructed today covers approximately 4,000 square feet and has seating for about 120. The site averages 44,000 square feet and provides parking for some 60 cars. (Incidentally, four of the original candy-striped buildings would fit into today's typical restaurant.)

After McDonald's had established its reputation in suburban locations, the Company took the Golden Arches into urban centers, shopping centers and recreational areas. Now our restaurants are found even on college campuses and in a zoo, a museum and a hospital.

When McDonald's success had grown throughout North America, the Company established operations abroad, designing restaurants for the towns and cities of Europe, the Orient and other locations around the world.

As the pace of life quickened during the 1970s, McDonald's introduced the drive-thru, so customers could buy meals without leaving their automobiles. At year-end 1979, 2,884 restaurants in the system had drive-thrus, including 130 outside the United States.

When McDonald's began, it not only had to introduce its foodservice concepts to the communities it entered, but also, in order to create a new restaurant, the Company had to convince an independent investor to acquire the land, build the restaurant and then lease it to McDonald's. In the late 1960s McDonald's improved financial position enabled it to finance its growth through long-term loans, each of which covered a number of locations. Through this program McDonald's was able to purchase rather than lease many of its properties. Today McDonald's owns 55 percent of its locations; the number of sites owned continues to grow.

A McDonald's in Canada, with the nation's Maple Leaf on the Golden Arches.

The design of the restaurants has evolved over the years to be compatible with more and more environments. The Company offers several exterior treatments for its free-standing building; these include such motifs as Bavarian, New Englander and Country French. Urban and mall locations have necessitated the development of townhouse units and "storefront" designs.

In fact, McDonald's "looks" cover the gamut—from the steel-and-glass restaurant in Hamburg, Germany, the 100th McDonald's in that country, to restaurants that feature McDonald's favorite clown, Ronald. Some 353 restaurants have built McDonaldland Parks on their grounds, with playground equipment featuring the McDonaldland characters.

The restaurants also use a variety of interior decors. Many have special themes: A McDonald's in Saginaw, Michigan, a former lumbering capital, uses antique lumbering implements in its interior, while a Kokomo,

Indiana McDonald's has an antique car motif that ties in with the town's association to the early days of the auto industry. Especially popular in the newer restaurants are muted, natural-tone color schemes accented with an abundance of green plants and fresh flowers.

McDonald's has kept pace with modern energy-efficient restaurant building designs and construction methods. For example, many restaurants have installed sophisticated energy management systems that lower the amount of energy used for heating, air conditioning, ventilation, lighting and major cooking equipment.

Through its energy conservation efforts, McDonald's is better able to manage escalating energy costs, while contributing to the worldwide efforts to conserve energy.

creativity in marketing, caring in community relations . . .

What is McDonald's?

McDonald's is the pleasant, convenient, neighborhood restaurant down the block or across the street where families go for dinner, where working people enjoy a quick breakfast or lunch, where young people stop for a snack after school or a school dance.

Lionel Hampton, playing with McDonald's All-American High School Band.

McDonald's is the home of Ronald McDonald, the most famous clown in the world, a friend of children everywhere.

McDonald's is the whimsy of the McDonaldland characters.

McDonald's is a local business, a good neighbor, a generous contributor to charities, an active participant in the community.

McDonald's is the fun of catchy jingles like, "Twoallbeefpattiesspecialsaucelettucecheese picklesonionsonasesameseedbun."

McDonald's is so much a part of Americana that it is included in a Smithsonian Institution exhibit on 20th century American life. Yet, McDonald's is part of contemporary culture around the world.

The McDonald's personality can be summed up in four letters (Q.S.C. & V., for the McDonald's motto of Quality, Service, Cleanliness and Value) or three words (Food, Folks and Fun, the basic experience that McDonald's provides its customers).

McDonald's personality is communicated to the public not only in our restaurants, but also through advertising and promotion. In 1979 the Company, its franchisees and affiliates spent $261 million for advertising, including $217 million in the U.S., placing McDonald's among America's top 25 advertisers.

From the beginning McDonald's has been a marketing-oriented company. Back in the 1950s it was symbolized by "Speedee," a hamburger cartoon character who graced the McDonald's sign. In those days McDonald's gained most of its recognition through neighborhood advertising and newspaper publicity. For example, a columnist in the December 12, 1957, issue of the Chicago Sun-Times heralded "Ray (McDonald's Drive-Ins) Kroc" for serving hot coffee and hamburgers to the Salvation Army Christmas kettle workers.

In 1960 the Company introduced its first advertising jingle, "Look for the Golden Arches." Since then McDonald's has tantalized the public's taste buds with such slogans as "Go for goodness—At McDonald's," "Those who know—Go to McDonald's," "McDonald's is your kind of place," "You deserve a break today" and "We do it all for you."

In 1979 the Company adopted a new advertising message, this time telling consumers, "Nobody can do it like McDonald's can."

McDonald's first targeted its advertising at families. Beginning in 1967 the Company determined that the best and most efficient way to reach these families was through the mass medium of television. Thus, beginning that year McDonald's channeled some of its advertising expenditures into network TV, becoming the first restaurant company to use national television advertising.

Today the goal of McDonald's advertising is to strengthen existing markets while building new ones. To accomplish this, the Company has expanded the scope of its marketing efforts to reach out not only to the mass markets, but also to specific segments of the market; for example, working women, blue-collar workers, senior citizens and minorities.

In international markets McDonald's first marketing goal is to introduce customers to the McDonald's experience. The Company uses television commercials, directed to both adults and children, as soon as possible. However, in some markets the access to commercial television is either limited or nonexistent, so the Company also relies on other media: billboards, the cinema, newspapers, magazines, radio, direct mail and point-of-purchase marketing.

McDonald's has achieved a reputation as a leading innovator in marketing. Writing in the *Harvard Business Review*, Philip Kotler, a professor at Northwestern University's graduate school of management, said that McDonald's is one of only a handful of companies that practice sophisticated marketing, which Kotler

characterized as an emphasis on "marketing effectiveness" rather than "sales obsession."

Integral to McDonald's personality are its community relations programs around the world. Community involvement has always been a tenet of the McDonald's system. In the Company's early days, its franchisees actively contributed to their communities through good works such as providing food during local emergencies, holding fundraisers for charitable projects or awarding scholarships to outstanding young people.

Individual franchisees, restaurants and markets continue to participate in such local efforts, and as the system has grown, it has sponsored national community relations programs as well. The first of these was the McDonald's All-American High School Band. Organized in 1967 to honor the top high school musicians in the U.S. (two from each state and the District of Columbia), the band has appeared annually in the Macy's Thanksgiving Day Parade in New York City and the Tournament of Roses Parade in Pasadena, California.

The national flags of McDonald's 27 "homelands" around the world.

Other major national community relations efforts include youth education programs involving films and teaching packets on such subjects as nutrition, ecology, home safety and bicycle safety; the McDonald's All-American High School Basketball Team and All-Star Game, founded to honor the top high school players in the U.S.; participation in the Jerry Lewis Labor Day Telethon, the annual fundraising effort on behalf of the Muscular Dystrophy Association; and public television programming directed to young people.

Perhaps best reflecting McDonald's personality is the Ronald McDonald House program, begun in 1974. Through it McDonald's restaurants in 21 markets have led the efforts to open—or begin construction on—homes near children's hospitals where families of seriously ill youngsters can stay for a nominal fee (or free-of-charge if financial hardship exists) while the children are hospitalized or receive extended out-patient care. By the end of this 25th anniversary year, Ronald McDonald Houses will be providing shelter annually for an estimated 33,000 family members—people in the U.S., Canada and Australia.

McDonald's: 25 years of entrepreneurial spirit.

Business philosopher Peter F. Drucker has written, "There is only one valid definition of business purpose: To create a customer."

McDonald's Corporation, in its 25 years, has created customers by the hundreds of millions.

While serving these millions, McDonald's has exemplified the entrepreneurial spirit and ingenuity characteristic of the free enterprise system. Over the years the Company has been innovative and flexible in anticipating the changing needs of society and adapting the business to meet those needs.

Proof of McDonald's business success is its exceptional economic performance. For 25 consecutive years, no matter what the prevailing economic conditions, the system has grown in sales, revenues and number of restaurants. Important to this growth were the McDonald's franchisees who, as they invested their time and money into developing their restaurant businesses, contributed to the accelerated expansion of the system.

As the Company and its franchisees have achieved economic success, they are best serving society in a most obvious way: By providing an essential human need—food—in an excellent, efficient and economical manner.

The restaurants contribute in other ways, too. In each community McDonald's purchases goods and services, buys land, builds buildings, employs—and creates careers for—increasing numbers of people, pays taxes and, in summary, is an asset to the neighborhood.

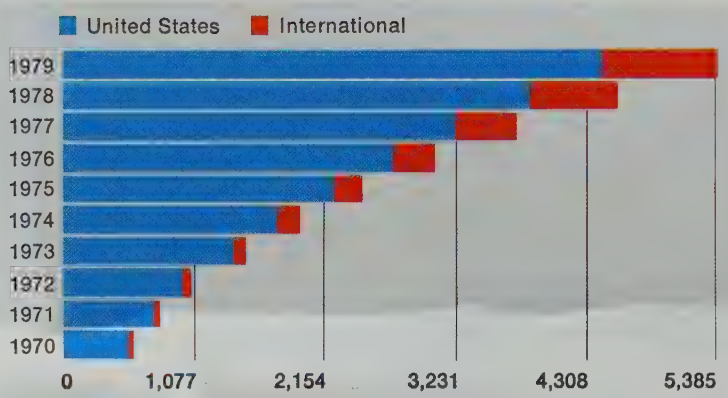
As a good neighbor McDonald's is concerned about the social, economic and environmental needs of the communities where it does business, and thus, sponsors many community relations programs addressing those needs. The Company's philosophy of community contribution is built on a belief in the power, potential and ability of the individual. As a result, McDonald's prefers to develop and contribute to grassroots efforts designed to help people help themselves.

As McDonald's looks forward to the next 25 years, it is committed to building upon its past successes and achievements.

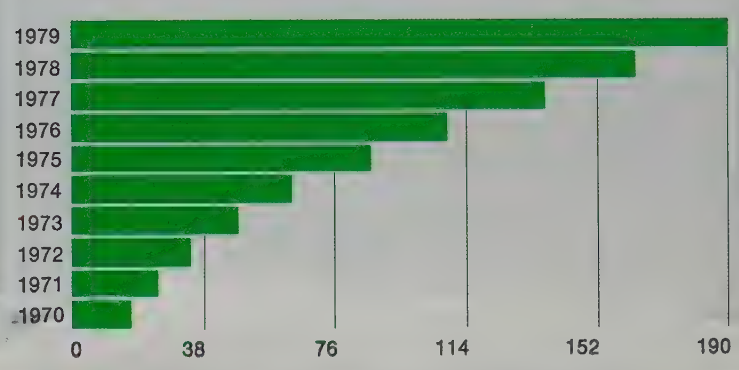
Our Company and its franchisees will continue to provide our customers with the excellent food, service and value they have come to expect from McDonald's. We will work to identify new markets for the McDonald's concept and new products for even broader customer appeal. We will continue to cultivate the potential of our people and to attract more good people into the McDonald's family. We will further strengthen our industry leadership wherever we do business. And, we will reaffirm our commitment to the common good of the towns and cities around the world where the millions of people who are McDonald's customers live.

George and Addie Kown joined McDonald's franchise family in 1979. Here they are, amid the packing crates, during the hectic week before their restaurant's opening. In their new business the Kowns and their restaurant will benefit from the expertise, support and name of the Corporation, while at the same time, as franchisees, they contribute to the growth of the entire system.

		1979	1978	1977
		(Figures in thousands, except per share amounts and number of restaurants)		
Systemwide sales	United States	***$4,448,000***	3,848,000	3,241,000
	International	***937,000***	727,000	497,000
	Total systemwide sales	***$5,385,000***	4,575,000	3,738,000
Sales by Company-owned restaurants		***$1,495,216***	1,290,621	1,097,434
Revenues from franchised restaurants		***$ 416,637***	352,928	286,773
Total revenues		***$1,937,935***	1,671,891	1,406,148
Income before income taxes		***$ 344,508***	312,825	266,796
Net income		***$ 188,608***	162,669	136,696
Stockholders' equity		***$ 952,166***	796,337	643,113
Total assets		***$2,354,006***	1,953,489	1,645,155
Per common share	Net income	***$ 4.68***	4.00	3.37
	Dividends paid	***$ .51***	.32	.175
	Stockholders' equity	***$ 23.69***	19.66	15.91
Number of restaurants at end of year	Operated by franchisees	***3,927***	3,573	3,184
	Operated by the Company	***1,547***	1,406	1,338
	Operated by affiliates	***273***	206	149
	Total restaurants	***5,747***	5,185	4,671



Total systemwide sales
in millions of dollars



Net income
in millions of dollars

1976	1975	1974	1973	1972	1971	1970
2,730,000	2,256,000	1,792,000	1,420,000	987,000	761,000	575,000
333,000	222,000	151,000	87,000	46,000	23,000	12,000
3,063,000	2,478,000	1,943,000	1,507,000	1,033,000	784,000	587,000
923,197	771,552	630,178	510,730	367,253	269,158	190,942
233,224	185,163	140,850	104,574	68,700	52,343	39,093
1,176,436	972,641	785,432	624,254	442,406	326,041	233,453
215,504	171,817	132,203	98,628	69,657	51,450	35,356
109,180	86,802	64,936	49,505	35,714	26,488	18,516
516,690	409,376	318,168	253,484	201,334	133,689	106,095
1,372,174	1,169,344	952,051	723,579	530,025	386,172	295,684
2.69	2.15	1.61	1.23	.90	.69	.51
.075						
12.75	10.12	7.96	6.37	5.11	3.46	2.75
2,841	2,495	2,157	1,776	1,465	1,253	1,052
1,217	1,123	1,009	896	785	644	540
120	88	66	45	22	7	
4,178	3,706	3,232	2,717	2,272	1,904	1,592

The accompanying data and other financial data presented on pages 20 through 28, except for stockholders' equity and total assets, have been restated to include the accounts of pooled businesses for the year of acquisition and the four preceding years. Stockholders' equity and total assets include the accounts of pooled businesses for the year of acquisition and the immediately preceding year.

Net income per share is based on average common and common equivalent shares outstanding. Dividends paid and stockholders' equity per share are based on common shares outstanding. All per share data is after retroactive adjustment for stock splits.

McDonald's 25 Anniversary

Property and equipment, net; Long-term debt
in millions of dollars

Stockholders' equity; Total assets
in millions of dollars

Year in review—1979

Numerous milestones marked 1979, McDonald's 25th year. Systemwide sales exceeded $5 billion, total revenues approached $2 billion, total assets topped $2 billion and stockholders' equity reached almost $1 billion. Also during 1979 McDonald's added a record number of new restaurants and set a new high—$1 million—in average annual sales of individual restaurants opened 13 months or more. McDonald's served more meals in 1979 than in any previous year, including the Company's 31 billionth hamburger. This review examines the Company's results more closely and points out some five-year comparisons.

Systemwide sales

Systemwide sales of $5,385,000,000 in 1979 represent an increase of 18% or $810,000,000 over 1978 sales of $4,575,000,000. The 1979 sales are almost triple that of five years ago. The compounded annual growth rate of systemwide sales for the past five years was 23%. This growth was a result of sales by restaurants added and the increase in average sales of existing restaurants, which in part reflects price increases.

The average annual sales of restaurants open 13 months or more in 1979 reached a new high of $1 million, an increase of 6.4 percent over the comparable period of the preceding year for which they were open. By comparison, average sales in 1978 were $942,000; and in 1974, $671,000.

1979 also marked the first year in which an individual McDonald's topped the $3 million annual sales mark; five restaurants accomplished this feat. A total of 57 restaurants exceeded $2 million in sales; and 2,284, $1 million. In 1978, 35 restaurants achieved sales of $2 million, and 1,671 exceeded the $1 million mark.

Revenues

Revenues totaled $1,937,935,000 in 1979, an increase of $266,044,000 or 16% over 1978 revenues of $1,671,891,000. The compounded growth rate of revenues for the last five years was 20%, increasing from $785,432,000 in 1974. Revenues include (a) sales by Company-owned restaurants, (b) revenues from franchised restaurants and (c) other revenues, including gains on sales of Company-owned restaurant businesses and interest income.

Revenues from franchised restaurants consist primarily of fees provided for by agreements which are part of the overall franchise arrangement with each franchisee. These fees are based upon a percentage of sales with a specified minimum payment, and under current agreements, generally amount to 11.5% of a restaurant's sales.

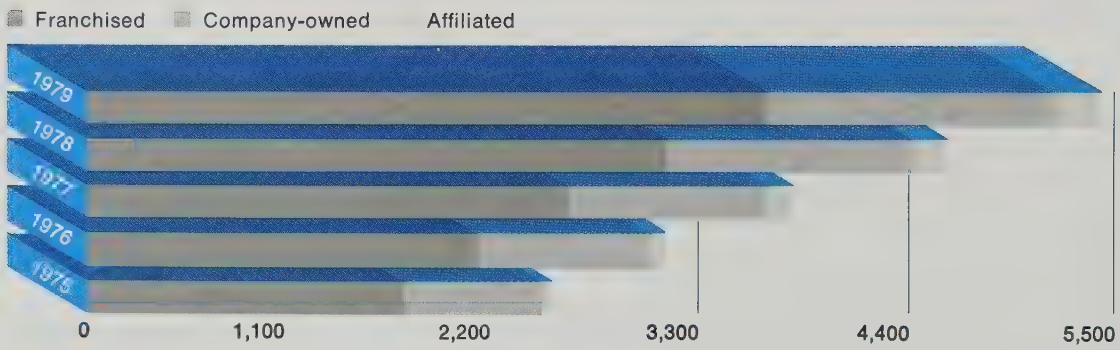
Increases in total revenues are due principally to the opening of new restaurants and the increased sales from existing restaurants. Although price increases do contribute to the growth in revenues, it is impractical to accurately determine their impact because of the lack of uniform pricing throughout the system and variances in product mix.

Operating results

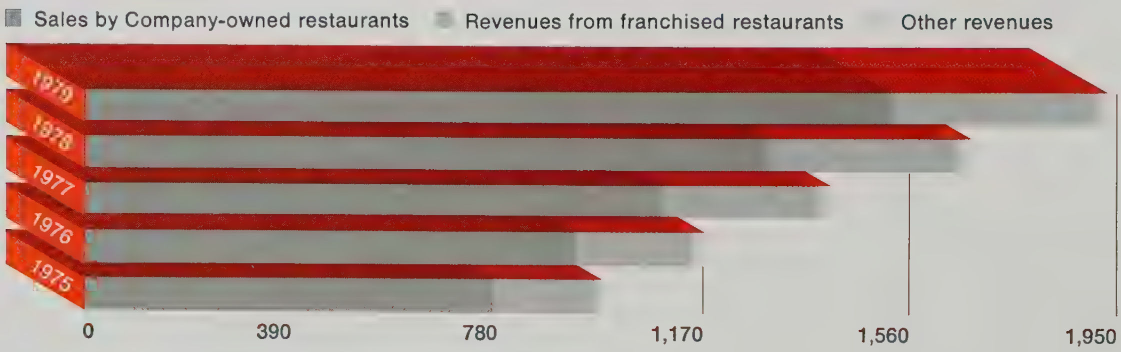
Net income as a percentage of total revenues was 9.7 percent in each of the last three years, and in both 1979 and 1978, net income grew by $26 million and total revenues increased by $266 million.

The table on the following page sets forth for each revenue category the consolidated percentage profit before general, administrative and selling expenses, interest expense and income taxes for the most recent five years.

Systemwide sales
in millions of dollars



Revenues
in millions of dollars



	1979	1978	1977	1976	1975
Sales by Company-owned restaurants	17%	17%	18%	19%	19%
Revenues from franchised restaurants	86	87	86	86	86

The Company-owned restaurants generally adjust menu prices to compensate for increased costs and expenses, which include higher beef prices, an increase in the minimum wage, higher employee benefits costs, greater advertising and promotion expenditures and increased operating expenses in a growing international market.

The general stability in percentage profit for franchised restaurants results from an increase in the percentage fees generated by higher average sales in restaurants, offset somewhat by higher occupancy costs of new sites. In addition, the number of new franchised restaurants opened since January 1970, when the current percentage fees totaling 11.5% became effective, represents a greater portion of restaurants in operation. Percentage fees under earlier franchise arrangements generally range from 7.9% to 11%. Contributing to the slight reduction in percentage profit for franchised restaurants in 1979 were the higher new building costs, particularly in international markets, and an increase in the number of restaurants leased to operators in business facility arrangements. During the period of these short-term arrangements, the Company owns the restaurant equipment which is included as part of the franchise package, and thus, the Company's franchised restaurant profit is reduced by the depreciation expense related to this equipment. However, when the purchase option is exercised by the franchisee, a gain to the Company generally results. In 1979 the gains related to business facility options exercised averaged $165,000 per restaurant.

Net income for 1979 amounted to $188,608,000, an increase of $25,939,000 or 16% over the 1978 net income of $162,669,000. Net income during the last five years has increased at a compounded annual growth rate of 24%, increasing from $64,936,000 in 1974.

The Company added a record 562 restaurants in 1979, 48 more than in 1978. Of these restaurants 392 were located in the United States, and 170 in international markets. At year-end the worldwide total of restaurants was 5,747—4,857 in the U.S. and 890 in 26 other countries and territories. Of the total restaurants, 3,927 (68%) are franchised, 1,547 (27%) Company-owned and 273 (5%) affiliated (joint ventures between McDonald's and local business people). During the past five years, the Company has added 2,515 restaurants. An additional 138 were under construction at year-end 1979, including 31 outside the U.S.

The Company's emphasis continues to be on owning restaurant facilities. At year-end McDonald's owned 3,159 of its real estate locations worldwide or 55%, as compared with 1,487 or 46% five years ago.

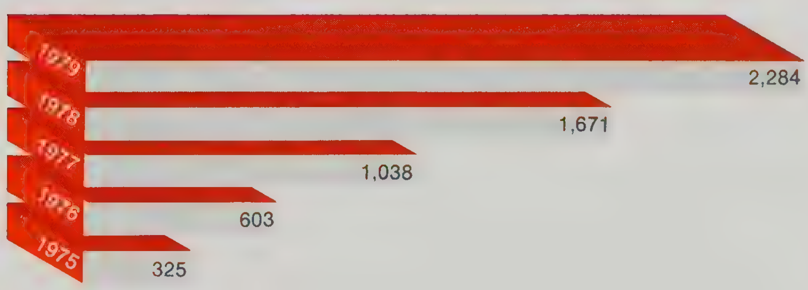
During the past year McDonald's added a record 993 drive-thrus to the system, bringing the total at year-end to 2,884, compared to 1,891 at the end of 1978. McDonald's built its first drive-thru in 1975. Of the drive-thrus built in 1979, 608 were additions to existing restaurants. The drive-thru window generally accounts for 30 to 40 percent of a restaurant's sales.

Also during 1979 McDonald's nearly doubled the number of McDonaldland Parks, bringing the total at year-end to 353, compared to 187 at the close of 1978. Built adjacent to restaurants—either outdoors or indoors, the parks are playgrounds featuring a McDonaldland theme.

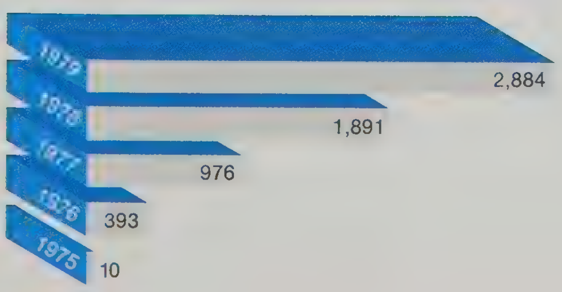
While McDonald's first restaurants were all free-standing

Number of restaurants systemwide

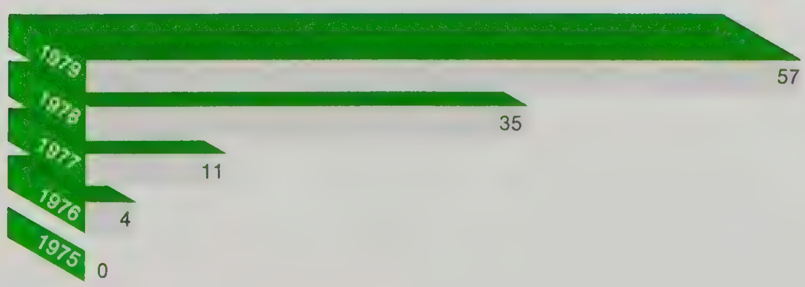
Number of restaurants with yearly sales exceeding one million dollars



Number of drive-thrus



Number of restaurants with yearly sales exceeding two million dollars



facilities, today the Company also has locations in malls and in-stores (store-front restaurants in shopping and/or business areas). At year-end 1979 the Company had 820 such locations worldwide.

Fortune Magazine, in its July 16, 1979, issue ranked the 50 largest "retailing" companies. McDonald's was included in this category and was first in net income as a percentage of "operating" revenues—9.9% in 1978. Fortune included only Sales by Company-owned restaurants and Revenues from franchised restaurants in computing the Company's "operating" revenues. The Company was second in compounded growth rate in earnings per share—30% over the 10-year period ended December 31, 1978—and ranked sixth in net income for 1978. In 1979 net income as a percentage of "operating" revenues was again 9.9%, and the compounded growth rate in earnings per share for the 10 years ended December 31, 1979, was 27%.

This growth is reflected in the Company's operations as illustrated in the table and discussion that follow.

	Increase (decrease) over the previous year			
	1979		1978	
	(In thousands of dollars)			
	Amount	%	Amount	%
Systemwide sales	$810,000	18%	$837,000	22%
Revenues—				
Sales by Company-owned restaurants	204,595	16	193,187	18
Revenues from franchised restaurants	63,709	18	66,155	23
Other revenues	(2,260)	(8)	6,401	29
Total revenues	266,044	16	265,743	19
Costs and expenses—				
Company-owned restaurants	174,790	16	177,913	20
Expenses directly applicable to revenues from franchised restaurants	11,472	24	8,667	22
General, administrative and selling expenses	38,843	22	25,840	17
Interest expense	9,256	15	7,294	13
Total costs and expenses	234,361	17	219,714	19
Income before provision for income taxes	31,683	10	46,029	17
Provision for income taxes	5,744	4	20,056	15
Net income	25,939	16	25,973	19

Restaurants opened during 1979 added $224,000,000 to the systemwide sales increase for that year; 1978 openings added $196,000,000 to systemwide sales for that year. Average annual sales of restaurants open 13 months or more at year-end increased 6.4% in 1979 and 9.5% in 1978 over comparable periods of the preceding year for which they were open. The percentage increase in Revenues from franchised restaurants in each year was greater than the percentage increase in Sales by Company-owned restaurants. In 1978 this was due to the greater percentage increase in the number of franchised restaurants, 389 or 12%, as compared to an increase in the number of Company-owned restaurants of 68 or 5%. In 1979, however, the percentage increase in the number of franchised restaurants and Company-owned restaurants was the same, 354 or 10% and 141 or 10%, respectively. A major portion of the increase in the number of Company-owned restaurants in 1979 occurred during the latter part of the year, and consequently, did not have a full year's impact on Company-owned restaurant sales during 1979.

The decrease in Other revenues for 1979 was due primarily to an increase in foreign currency exchange losses from $1,135,000 in 1978 to $2,830,000 and a reduction in interest income. Interest income declined because funds that normally would have been invested in certificates of deposits and other short-term investments were used to reduce the growth in debt in a year of increasing interest rates.

The increase in General, administrative and selling expenses over the comparable year-ago periods is indicative of the Company's expanded level of operations in each year. A greater number of employees, improved employee benefits, advertising expenditures and a growing international market have all contributed to this increase. In 1979 the Company made substantial discretionary advertising expenditures by sponsoring several special media presentations.

Interest expense is also higher, due to financing for increased land, building and equipment expenditures for new and existing restaurants and to rising interest rates. The Company feels that its emphasis on owning real estate properties will yield long-term benefits, among which are the anticipated continuation of appreciation in real estate values and the counter-inflationary advantages of owning as compared with leasing.

The decrease in the effective income tax rate for 1979, as compared with 1978, is due primarily to the decrease in the U.S. federal statutory rate from 48% to 46% and an increase in investment tax credits.

Training

So that its restaurant franchisees and managers are thoroughly trained, McDonald's provides them with a complete management development program at Hamburger University, the Company's international management training center. In 1979 Hamburger U. graduated 1,697 McDonald's people. Another 60 experienced franchisees and managers completed a course of advanced study at the university during the year.

Advertising and community relations

McDonald's Corporation, its franchisees and affiliates invested approximately $261 million in advertising during 1979. By comparison, the 1978 advertising investment was $215 million and the 1974 investment, $75 million.

Directing McDonald's marketing programs is a corporate marketing department, with staff people at the Oak Brook headquarters as well as in regional and international offices. Major agencies in the fields of advertising, promotion and public relations work directly for the Company. Another 102 agencies in the United States and throughout the world implement marketing programs at the local level.

McDonald's restaurants in the U.S. voluntarily contribute a percentage of sales to OPNAD, the Operators National Advertising Fund; these moneys are used to purchase national advertising. The restaurants pay an additional percentage of sales to local advertising cooperatives, which purchase local advertising. McDonald's restaurants abroad make similar marketing contributions.

In the second quarter of 1979, the Company introduced a new advertising theme for its U.S. restaurants: "Nobody can do it like McDonald's can." This theme emphasizes McDonald's leadership in the fast-service restaurant industry. Among the year's advertising efforts in the U.S. were an adult campaign on the quality of McDonald's products and a children's campaign promoting special packages that contained not only a child-sized McDonald's meal, but also a special surprise gift.

Around the world the Company, its franchisees and affiliates continued in 1979 to support a wide variety of local civic and charitable programs. For example, the restaurants in Tokyo and Osaka, Japan, sponsored a boys' baseball tournament; the McDonald's in Singapore distributed metric educational materials throughout the country's school system; and the Basel, Switzerland, McDonald's donated animals to the city's zoo. Highlighting local programs in the U.S. were the openings of nine new Ronald McDonald Houses—homes near children's

hospitals where families of seriously ill youngsters can live while the children receive treatment. At year-end 12 houses were in operation—in Atlanta, Birmingham, Boston, Chicago, Cleveland, Denver, Detroit, Minneapolis, New York, Philadelphia, Pittsburgh and San Francisco; another nine houses were under construction, including the first in Canada and Australia. The homes are supported by the McDonald's restaurants and civic groups in the area.

During 1979 the Corporation contributed to more than 250 not-for-profit organizations which sponsor programs addressing social, economic and environmental problems in McDonald's "neighborhoods."

International Division operations

In 1979 McDonald's opened its 300th restaurant in Canada, 200th in Japan, 100th in Australia and 100th in Germany. Restaurants were opened in two new markets—Brazil and Singapore.

Expansion outside the United States is accomplished through restaurants operated by 1) the Company—through wholly-owned subsidiaries, 2) franchisees—individuals granted franchises by the Company, a wholly-owned subsidiary, or an affiliate, and 3) affiliates—companies where McDonald's equity is 50% or less and the remaining equity is generally owned by a resident national. The restaurants operated by the Company are mainly in Canada, Germany and Australia; franchised restaurants are primarily in Canada, Germany and other Western European countries, Australia and Central America; and affiliated restaurants are principally in Japan, England and Hong Kong.

The number of International Division restaurants has more than tripled in the last five years, going from 283 at December 31, 1974, to 890 at December 31, 1979. Sales were $936,846,000 for 1979, more than six times the 1974 sales of $151,356,000, a compounded annual growth rate of 44%. In 1979 International Division systemwide sales comprised 17% of worldwide systemwide sales, as compared with 8% in 1974. The impact of exchange rate fluctuations on the dollar equivalent of sales was not significant during the past five years.

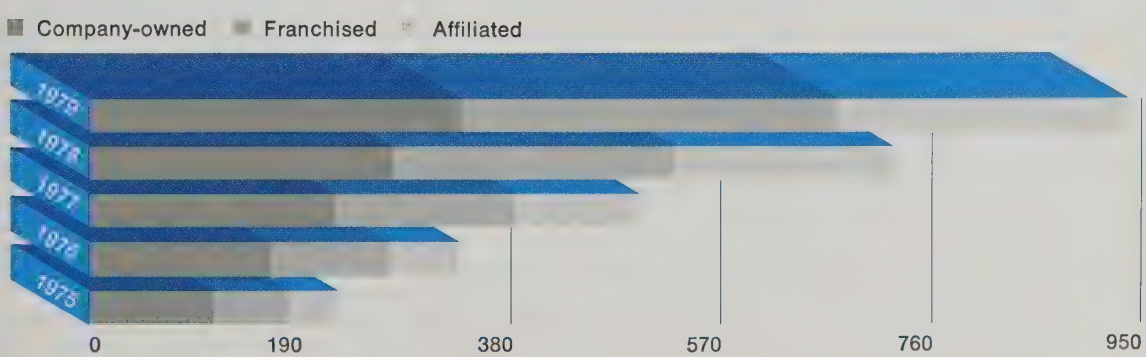
Revenues and Costs and expenses in the International Division reflect operations of wholly-owned subsidiaries, fees from restaurants operated by independent franchisees and affiliates, and the Company's share of operating results of affiliated companies. Certain of the fees are received in the United States. Included in Other revenues are all foreign exchange gains and losses.

Company Revenues from International Division operations have increased from $85,988,000 in 1974 to $379,997,000 in 1979, a compounded annual growth rate of 35%. The contribution to consolidated Income before general, administrative and selling expenses, interest expense and income taxes by International Division operations has grown from $17,266,000 in 1974 to $87,922,000 in 1979, a compounded annual growth rate of 38% for the five-year period. In both of these respects, International Division operations have become an increasing percentage of the corresponding consolidated amounts, as illustrated by the following table.

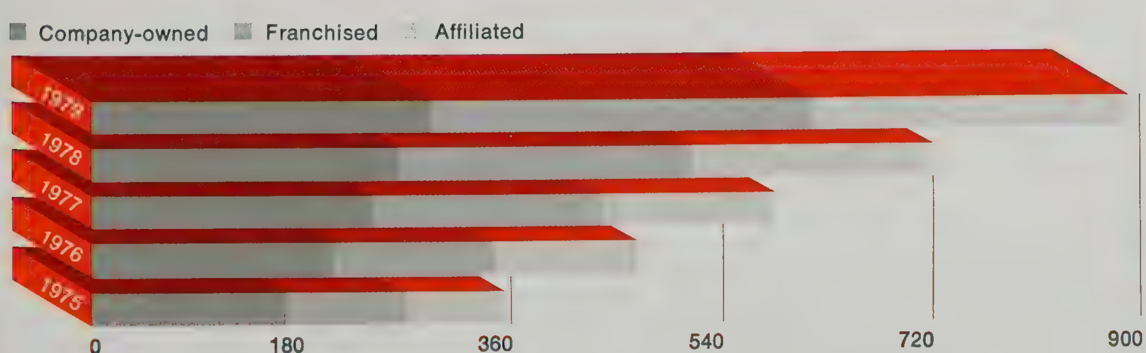
International Division	1979	1978	1977	1976	1975
Contribution to consolidated:					
Revenues	20%	19%	17%	15%	13%
Income before general, administrative and selling expenses, interest expense and income taxes	14	13	12	10	9

Company assets in the International Division operations have grown almost five times in the past five years, going from $77,741,000 at December 31, 1974, to $446,296,000 at December 31, 1979. These assets are mainly located in Canada, Germany and Australia.

International Division—sales
in millions of dollars



International Division—number of restaurants



International Division restaurants—December 31, 1979

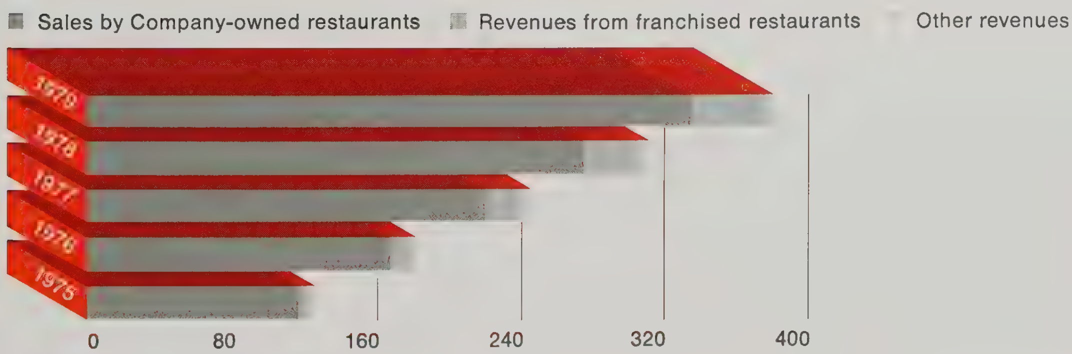
Number of restaurants	
Australia	107
Austria	2
Bahamas	1
Belgium	3
Brazil	2
Canada	335
Costa Rica	3
El Salvador	3
England	38
France	15
Germany	103
Guam	2
Guatemala	2
Hong Kong B.C.C.	13
Ireland	2
Japan	212
Netherlands	16
Netherlands Antilles	2
New Zealand	7
Nicaragua	1
Panama	5
Puerto Rico	1
Singapore	2
Sweden	7
Switzerland	3
Virgin Islands	3
	890


YORK
McDonald's
FORD
VLY 757S

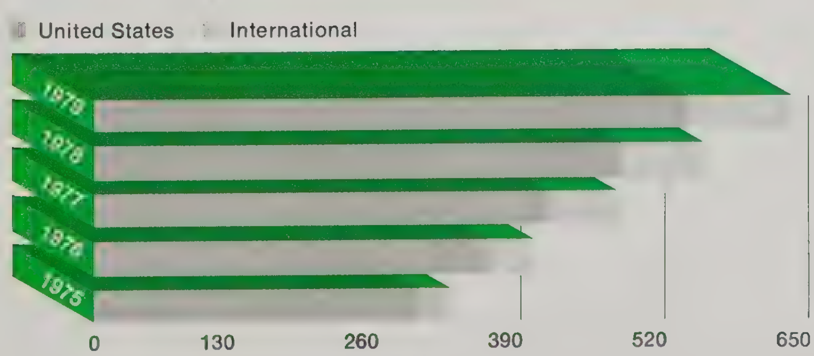
Five-year financial information McDonald's Corporation—International Division

	1979	1978	1977	1976	1975
	(Figures in thousands, except number of restaurants and number of countries and territories)				
Sales by—					
Company-owned restaurants	$335,060	$274,246	$220,550	$167,483	$115,095
Franchised restaurants	337,283	252,988	165,180	101,809	65,441
Affiliated restaurants	264,503	199,760	110,793	63,993	41,600
Total sales	$936,846	$726,994	$496,523	$333,285	$222,136
Revenues—					
Sales by Company-owned restaurants	$335,060	$274,246	$220,550	$167,483	$115,095
Revenues from franchised restaurants	41,583	31,135	20,217	12,112	7,568
Other revenues	3,354	6,312	5,116	2,041	2,774
	379,997	311,693	245,883	181,636	125,437
Costs and expenses—					
Company-owned restaurants	284,755	234,906	185,414	140,195	96,927
Expenses directly applicable to revenues from franchised restaurants	7,320	4,815	2,696	1,385	846
	292,075	239,721	188,110	141,580	97,773
Income before general, administrative and selling expenses, interest expense and income taxes	$ 87,922	$ 71,972	$ 57,773	$ 40,056	$ 27,664
Total assets	$446,296	$334,690	$244,733	$178,532	$110,988
Number of restaurants at end of year—					
Operated by the Company	291	263	239	207	165
Operated by franchisees	327	252	198	140	101
Operated by affiliates	272	205	149	120	88
Total restaurants	890	720	586	467	354
Number of countries and territories	26	24	23	22	20

International Division—revenues
in millions of dollars



Income before general, administrative and selling expenses, interest expense and income taxes
in millions of dollars



McDonald's has been serving British consumers since 1974. This truck, in the shadow of Big Ben, is delivering products and supplies to the McDonald's restaurants in London.

Financial position

Total assets amounted to $2,354,006,000 at December 31, 1979, almost 2.5 times the total assets of $952,051,000 in 1974. Net property and equipment was $1,944,937,000 at December 31, 1979, or 83% of total assets. In recent years expenditures for property and equipment have been the Company's single largest use of funds.

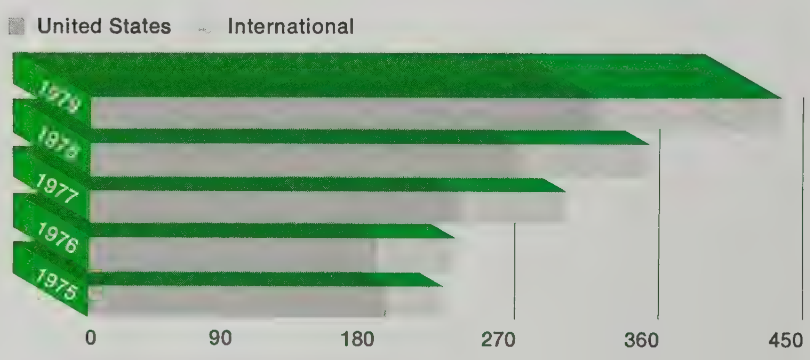
The investment of these funds for the past five years in new and existing restaurants and other facilities is summarized by the following table:

	1979	1978	1977	1976	1975
					(In thousands of dollars)
Restaurants opened during year—					
Land and buildings, less construction in progress at beginning of year	$200,700	$174,200	$154,200	$135,700	$130,200
Equipment	44,600	27,100	24,000	20,100	20,800
	245,300	201,300	178,200	155,800	151,000
Existing restaurants—					
Expansions, remodelings and improvements	46,700	37,000	30,800	20,800	24,200
Equipment	34,000	34,000	27,100	16,400	14,500
Acquisitions of properties previously leased and properties for additional parking	19,600	11,900	10,100	8,800	10,000
	100,300	82,900	68,000	46,000	48,700
Other expenditures, principally construction in progress	92,154	69,895	55,436	31,327	28,138
	$437,754	$354,095	$301,636	$233,127	$227,838

The increases in expenditures related to Existing restaurants for the past three years resulted primarily from the installation of drive-thru facilities and McDonaldland Parks, equipment required for new product introductions, new point-of-sale equipment and increased emphasis on property ownership. Inflationary increases in equipment and construction costs as well as growth in the number of existing restaurants have also contributed to this increase. Refurbishing expenditures in

Capital expenditures
in millions of dollars

Capital expenditures—United States and International
in millions of dollars



connection with restaurants acquired from franchisees also increased in the last three years, especially in 1979, when 141 restaurants were acquired.

The increase in Other expenditures in the last three years results primarily from increased land and building expenditures for restaurants under development, particularly the more expensive restaurants in growing international markets.

The amount of capital required is also dependent upon the cost of land, buildings and equipment, and the number of restaurants added during the year. The following table shows approximate average costs for United States restaurant properties for the last five years:

	1979	1978	1977	1976	1975
Land	$135,000	$127,000	$123,000	$115,000	$121,000
Buildings	382,000	326,000	279,000	254,000	251,000
Equipment	205,000	180,000	160,000	144,000	131,000
	$722,000	$633,000	$562,000	$513,000	$503,000

The 17% increase in the average domestic building cost for each of the past two years resulted primarily from inflationary pressure on construction costs, particularly costs for paving (which is petroleum based), more drive-thrus being attached to new buildings and higher capitalized interest due to increasing interest rates.

Restaurant properties are generally more expensive outside the United States. For example, Canada's average land, buildings and equipment cost for 1979 openings totaled $906,000 and building costs alone for 1979 openings averaged approximately $750,000 in Germany and $500,000 in Australia.

The funds generated from operations in 1979 were $311,203,000, or 71% of expenditures for property and equipment during the year. In 1978 such funds generated were 72% of the property and equipment expenditures in that year. Funds are used not only for property and equipment additions, but also for other items, including restaurant businesses purchased, cash dividends and debt repayments.

At 1979 year-end the Company's current ratio was .9; current cash management plans are to reduce this ratio in the future. During 1979 inventory turned over 38 times. With such a high velocity of cash, ample funds are available to meet current obligations.

The net increase in long-term debt in 1979 totaled $183,342,000, resulting principally from higher expenditures for property and equipment and the acquisition of existing restaurant businesses.

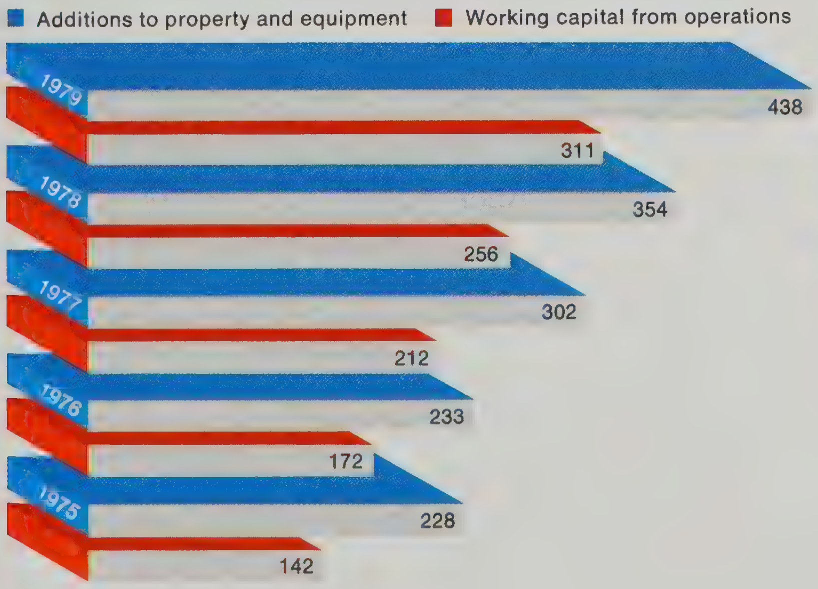
The returns on average equity and average total assets for the last five years follow:

	1979	1978	1977	1976	1975
Return on average equity	21.6%	22.6%	23.6%	23.6%	23.9%
Return on average total assets	19.4	20.9	21.4	20.9	20.5

Net income was used to calculate the return on average equity; the return on average total assets was computed by using income before income taxes and interest expense. The relatively lower returns in the last two years are a result of the Company's operating results discussed on pages 20-22 and growth in capital expenditures discussed on pages 26-27.

Stockholders' equity per common share has increased from $7.96 at December 31, 1974, to $23.69 at December 31, 1979, a compounded annual growth rate of 24%.

Comparison of working capital generated from operations to additions to property and equipment
in millions of dollars



Stockholders' equity per share
in dollars

Common stock

During 1979 the Company paid dividends on common stock of $.51 per share, compared to $.32 per share for the previous year, an increase of 59%. The Company will consider additional dividend increases as warranted by future business conditions.

The Company's common stock is listed on the New York, Midwest, Pacific and Toronto Stock Exchanges. The market price ranges on the New York Stock Exchange, representing the high and low closing price for the periods indicated, were as follows:

	1979	1978
First quarter	$48½—40	$50½—44¼
Second quarter	47⅞—40½	57¾—45
Third quarter	51⅝—44¾	60⅛—50¼
Fourth quarter	49½—40⅜	52⅛—45⅜

Fortune Magazine, in its most recent ranking of the 50 largest "retailing" companies, ranked McDonald's second in total return to investors over the 10-year period ended December 31, 1978. Total return includes both stock price appreciation and dividend yield.

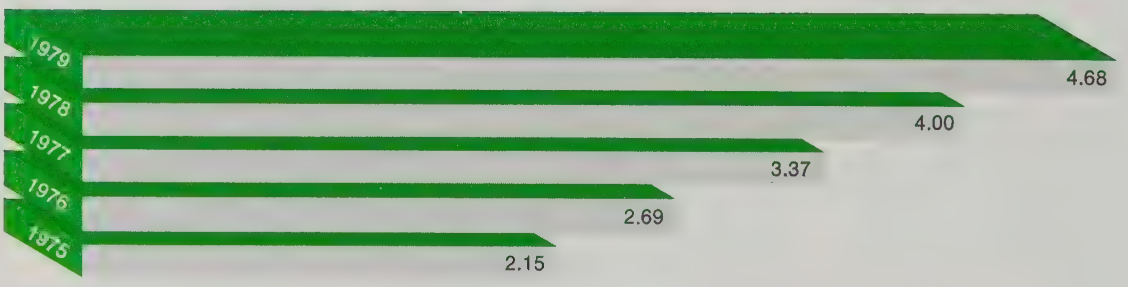
Closing

As we close this review of 1979, we cannot help but look back 25 years to 1955 and the beginnings of the McDonald's System. At that time Ray A. Kroc's fledgling company had modest capital and just one restaurant in operation. It was selling hamburgers, French fries, soft drinks and shakes—products sold by many restaurants. Considering these facts, 25 years ago few people would have predicted a system of more than 5,000 McDonald's restaurants in 27 countries and territories around the world.

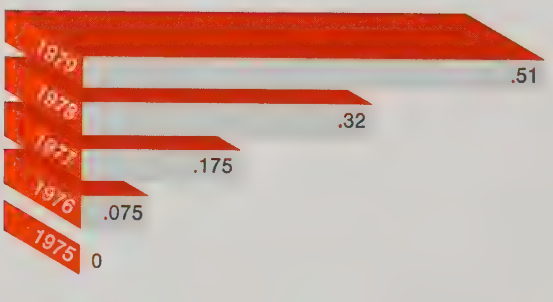
However, that first restaurant—like the others opened since then—was unique. Its operations were distinguished by its Quality, Service, Cleanliness and Value (Q.S.C. & V.), a distinction that became the hallmark of a system which would provide consistently high-quality products, excellent service standards, a clean, pleasant environment and a good eating-out value. This restaurant, like its successors, was able to attract to the system hard-working, talented franchisees and employees who believed in and took pride in these qualities. Moreover, this McDonald's was the forerunner of a system of mass merchandising that was completely new to the restaurant industry.

We enter McDonald's second quarter century with a solid record of experience in translating Q.S.C. & V. into continuing growth, a record that fuels our optimism for the next quarter century.

Earnings per share
in dollars



Dividends paid per share
in dollars



These young residents of Cologne, Germany, enjoy a McDonald's "picnic" at the banks of the beautiful Rhine River.

Assets		December 31, 1979 (In thousands of dollars)	1978
Current assets	Cash	$ 47,081	$ 24,472
	Certificates of deposit	64,201	57,130
	Short-term investments, at cost, which approximates market	29,408	74,990
	Accounts receivable	48,369	44,144
	Notes receivable	8,206	4,953
	Inventories, at cost, which is not in excess of market	17,798	14,332
	Prepaid expenses and other current assets	31,667	23,437
	Total current assets	246,730	243,458
Other assets and deferred charges	Notes receivable due after one year	48,968	33,948
	Investments in and advances to affiliates	14,145	9,405
	Miscellaneous	29,377	25,282
	Total other assets and deferred charges	92,490	68,635
Property and equipment	Property and equipment, at cost	2,331,870	1,908,596
	Less accumulated depreciation and amortization	386,933	310,823
	Net property and equipment	1,944,937	1,597,773
Intangible assets, net		69,849	43,623
	Total assets	$2,354,006	$1,953,489

 The Financial Comments beginning on page 35 are an integral part of the consolidated financial statements.

Liabilities and stockholders' equity		December 31, 1979	and 1978
		(In thousands of dollars)	
Current liabilities	Notes payable	$ 33,735	$ 27,506
	Accounts payable	127,906	112,743
	Income taxes	27,222	33,001
	Other accrued liabilities	41,201	35,101
	Current maturities of long-term debt	44,243	43,656
	Total current liabilities	274,307	252,007
Long-term debt	Long-term debt	875,809	688,658
	Obligations under capital leases	90,314	94,123
	Total long-term debt	966,123	782,781
Security deposits by franchisees		54,633	50,215
Deferred income taxes		106,777	72,149
Stockholders' equity	Common stock, no par value— Authorized—100,000,000 shares Issued—40,605,771 shares in 1979 and 40,599,305 shares in 1978	4,515	4,515
	Additional paid-in capital	93,508	92,484
	Retained earnings	871,918	703,826
		969,941	800,825
	Less treasury stock, at cost—407,080 shares in 1979 and 94,033 shares in 1978	17,775	4,488
	Total stockholders' equity	952,166	796,337
	Total liabilities and stockholders' equity	$2,354,006	$1,953,489

McDonald's Corporation and Subsidiaries — consolidated statement of income

		Years ended December 31, 1979	1978	1977	1976	1975
			(In thousands of dollars, except per share data)			
Revenues	Sales by Company-owned restaurants	***$1,495,216***	$1,290,621	$1,097,434	$ 923,197	$771,552
	Revenues from franchised restaurants	***416,637***	352,928	286,773	233,224	185,163
	Other revenues—net	***26,082***	28,342	21,941	20,015	15,926
	Total revenues	***1,937,935***	1,671,891	1,406,148	1,176,436	972,641
Costs and expenses	Company-owned restaurants—					
	Food and paper	***602,647***	518,686	429,519	359,755	308,991
	Payroll	***333,818***	289,836	242,098	205,740	165,808
	Rent	***18,628***	16,135	13,402	11,233	9,732
	Depreciation and amortization	***51,177***	43,342	35,661	29,453	25,439
	Other operating expenses	***241,063***	204,544	173,950	139,699	112,909
		1,247,333	1,072,543	894,630	745,880	622,879
	Expenses directly applicable to revenues from franchised restaurants—					
	Rent	***23,725***	19,986	16,408	13,914	11,347
	Depreciation and amortization	***35,276***	27,543	22,454	18,593	15,354
		59,001	47,529	38,862	32,507	26,701
	General, administrative and selling expenses	***214,501***	175,658	149,818	132,473	105,314
	Interest expense— Total interest charges	***82,863***	68,968	59,368	52,841	49,323
	Less amounts capitalized	***10,271***	5,632	3,326	2,769	3,393
		72,592	63,336	56,042	50,072	45,930
	Total costs and expenses	***1,593,427***	1,359,066	1,139,352	960,932	800,824
Income before provision for income taxes		***344,508***	312,825	266,796	215,504	171,817
Provision for income taxes		***155,900***	150,156	130,100	106,324	85,015
Net income		***$ 188,608***	$ 162,669	$ 136,696	$ 109,180	$ 86,802
Net income per share of common stock		***$4.68***	$4.00	$3.37	$2.69	$2.15
Dividends per share	Declared	***$ .51***	$ .32	$ .15	$ .10	
	Paid	***$ .51***	$ .32	$.175	$.075	

 The Financial Comments beginning on page 35 are an integral part of the consolidated financial statements.

McDonald's Corporation and Subsidiaries consolidated statement of changes in financial position

		Years ended December 31, 1979	1978	1977	1976	1975
					(In thousands of dollars)	
Source of working capital	Operations— Net income	***$188,608***	$162,669	$136,696	$109,180	$ 86,802
	Items not involving working capital:					
	Depreciation and amortization	***96,967***	79,831	65,387	53,717	46,067
	Deferred income taxes	***24,178***	13,945	10,089	11,828	12,177
	Other—net	***1,450***	(457)	(7)	(2,525)	(2,977)
	Total from operations	***311,203***	255,988	212,165	172,200	142,069
	Issuance of common stock on exercise of options	***584***	4,719	690	2,604	1,578
	Long-term debt additions	***506,937***	312,066	156,632	130,599	173,693
	Property and equipment disposals (gains and losses included in operations)	***18,682***	16,976	14,825	14,602	12,291
	Security deposits by franchisees	***8,059***	7,236	6,735	5,470	5,719
	Other	***24,135***	22,085	20,663	11,152	7,143
	Total source of working capital	***869,600***	619,070	411,710	336,627	342,493
Use of working capital	Property and equipment additions	***437,754***	354,095	301,636	233,127	227,838
	Non-current assets of businesses purchased	***52,399***	7,833	21,869	6,132	4,749
	Notes receivable due after one year	***30,741***	19,425	11,134	14,704	9,817
	Long-term debt reductions	***321,611***	215,052	64,298	80,680	87,329
	Cash dividends	***20,516***	12,949	6,073	4,021	
	Treasury stock purchases	***13,633***	1,416	5,096	885	
	Other	***11,974***	10,110	9,015	8,627	4,972
	Total use of working capital	***888,628***	620,880	419,121	348,176	334,705
Increase (decrease) in working capital		***$(19,028)***	$ (1,810)	$ (7,411)	$ (11,549)	$ 7,788
Changes in elements of working capital	Increase (decrease) in current assets:					
	Cash and certificates of deposit	***$ 29,680***	$ 33,466	$ 3,715	$ 6,992	$ (6,473)
	Short-term investments	***(45,582)***	(9,205)	12,481	6,562	25,834
	Accounts and notes receivable	***7,478***	5,995	10,863	4,411	5,769
	Inventories	***3,466***	1,920	1,295	1,433	505
	Prepaid expenses and other current assets	***8,230***	3,212	3,548	388	4,480
		3,272	35,388	31,902	19,786	30,115
	Increase (decrease) in current liabilities:					
	Accounts and notes payable	***21,392***	17,085	29,765	22,770	8,723
	Income taxes	***(5,779)***	(2,918)	(4,129)	7,710	10,137
	Other accrued liabilities	***6,100***	6,191	6,213	1,922	5,143
	Current maturities of long-term debt	***587***	16,840	7,464	(1,067)	(1,676)
		22,300	37,198	39,313	31,335	22,327
Increase (decrease) in working capital		***$(19,028)***	$ (1,810)	$ (7,411)	$ (11,549)	$ 7,788

The Financial Comments beginning on page 35 are an integral part of the consolidated financial statements.

McDonald's Corporation and Subsidiaries consolidated statement of retained earnings

	Years ended December 31, 1979	1978	1977	1976	1975
					(In thousands of dollars)
Balance at beginning of year	***$703,826***	$554,106	$423,483	$318,324	$231,786
Net income	***188,608***	162,669	136,696	109,180	86,802
	892,434	716,775	560,179	427,504	318,588
Deduct Cash dividends on common stock	***20,516***	12,949	6,073	4,021	
Adjustments related to pooled businesses					264
Balance at end of year	***$871,918***	$703,826	$554,106	$423,483	$318,324

The Financial Comments beginning on page 35 are an integral part of the consolidated financial statements.

Financial comments

Summary of significant accounting policies

☐ Consolidation policy

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in 50% or less owned affiliates, whose operations are not material to the consolidated financial statements, are carried at equity in the companies' net assets.

All significant intercompany transactions are eliminated in consolidation.

☐ Property and equipment

Additions to property for new restaurants include interest, real estate taxes and rents incurred through the development period. Depreciation and amortization are provided on the straight line method over the following estimated useful lives: restaurant buildings—principally 25 years; restaurant equipment and signs—principally 10 years; furniture, fixtures and other equipment—3 to 10 years; leasehold improvements—lesser of useful life of assets or terms of leases (including option periods); and property under capital leases—terms of leases.

Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for betterments and renewals are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

☐ Intangible assets

Costs allocated to unlimited term franchise rights reacquired prior to November 1970 are not being amortized. All other costs allocated to reacquired franchise rights are being amortized on the straight line method over the estimated remaining useful lives for limited term rights and 40 years for unlimited term rights.

☐ Revenue recognition

Initial location and license fees are recorded as income when the related restaurant is opened. Expenses associated with site assignment and the issuance of franchise agreements are charged to expense as incurred.

Continuing fees from franchised restaurants are recorded as income on the accrual basis as earned.

Gains on sales of Company-owned restaurant businesses are recorded as income when the sales are consummated and other stipulated conditions are met.

☐ Income taxes

United States income taxes have not been accrued on undistributed earnings of certain foreign subsidiaries and affiliates as the Company considers such earnings to be permanently invested in the businesses. Income tax provisions on such earnings, if distributed, would not be material due to the availability of foreign tax credits.

Investment tax credits are accounted for on the flow-through method as a reduction of income tax provisions.

☐ Debt issuance cost

Issuance cost of long-term debt is deferred and amortized over the repayment term.

☐ Foreign currency translation

Balance sheet items recorded in currencies other than U.S. dollars are translated at current exchange rates except for property and equipment, intangible assets, inventories, prepaid expenses and deferred income taxes, which are translated at historical rates. Revenues and expenses are translated at average rates of exchange for the period except that depreciation and amortization are translated at historical rates. All foreign currency exchange gains and losses including those resulting from foreign exchange hedging contracts are recorded in income currently.

Restaurant acquisitions, dispositions and number of restaurants in operation

During the five years ended December 31, 1979, the Company acquired restaurant businesses (including related territorial rights) from franchisees in transactions accounted for as purchases, and sold restaurant businesses to franchisees as follows:

	Purchased		Sold
	Number of restaurant businesses	Approximate purchase price	Number of restaurant businesses
		(In thousands of dollars)	
1979	141	$52,400	76
1978	29	7,800	82
1977	71	21,900	79
1976	21	6,100	85
1975	20	4,700	52

The number of restaurant businesses sold includes those resulting from the exercise of purchase options included in the lease agreements as follows: 1979—26; 1978—42; 1977—35; 1976—63; and 1975—27.

Results of operations of restaurant businesses purchased have been included in the consolidated financial statements since dates of acquisition. The results of operations of such businesses for periods prior to purchase and the results of operations of restaurant businesses sold, prior to their sale dates, were not material to the consolidated financial statements. Gains on sales of Company-owned restaurant businesses, included in Other revenues—net, for the last five years are as follows: 1979—$14,638,000; 1978—$13,295,000; 1977—$8,778,000; 1976—$9,393,000; and 1975—$5,759,000.

The number of restaurant businesses (including related territorial rights) acquired from franchisees in pooling of interests transactions were 58 in 1976 and 36 in 1975. Common shares issued in these transactions and their market value were as follows: 1976—447,973 shares ($24,950,000) and 1975—278,413 shares ($11,960,000). No restaurant businesses have been pooled since 1976.

The table below shows the number of restaurant businesses in operation at the end of each of the last six years.

	1979	1978	1977	1976	1975	1974
Operated by the Company	1,547	1,406	1,338	1,217	1,123	1,009
Franchised to other operators	3,696	3,466	3,093	2,760	2,390	2,073
Leased to other operators	231	107	91	81	105	84
Operated by 50% or less owned affiliates	273	206	149	120	88	66
	5,747	5,185	4,671	4,178	3,706	3,232

Operators of all the restaurants leased to others at December 31, 1979, have options to purchase the businesses.

Segment and geographic information

The Company operates in one industry segment. All significant revenues relate to over-the-counter sales of food products to the general public, whether the restaurants involved are operated by the Company, its affiliates or franchisees.

Restaurants are located in the United States and in foreign markets. Of the 5,747 restaurants in operation at December 31, 1979, 890 are operating outside of the United States. Of these foreign restaurants, 335 are located in Canada, and the remaining 555 are located in 25 other international markets.

Financial information for the years 1975 through 1979 applicable to the major geographic areas in which the Company operates and a reconciliation of such information with amounts shown in the consolidated statement of income follow. All areas outside of the United States and Canada are combined in the line captioned—Other International.

	1979	1978	1977	1976	1975
					(In thousands of dollars)
Revenues:					
U.S.	$1,576,814	$1,373,396	$1,169,136	$1,000,434	$850,338
Canada	219,363	187,555	162,551	125,982	92,221
Other International	152,852	118,945	80,626	54,273	32,512
Eliminations	(11,094)	(8,005)	(6,165)	(4,253)	(2,430)
Total revenues	$1,937,935	$1,671,891	$1,406,148	$1,176,436	$972,641
Operating income:					
U.S.	$371,207	$339,568	$293,123	$244,923	$202,841
Canada	31,547	25,013	23,628	18,252	12,887
Other International	14,346	11,580	6,087	2,401	2,019
	417,100	376,161	322,838	265,576	217,747
Interest expense	(72,592)	(63,336)	(56,042)	(50,072)	(45,930)
Income before income taxes	$344,508	$312,825	$266,796	$215,504	$171,817

U.S. revenues include, in part, fees received in the United States from independent franchisees, from 50% or less owned affiliates and from subsidiaries operating outside of the United States based upon a percentage of sales of such entities as stipulated in various agreements. Canada and Other International revenues include the Company's share of 50% or less owned foreign affiliates' results of operations and all foreign currency exchange gains and losses, including those resulting from hedging contracts.

In computing operating income, all expenses attributable to each geographic area, except interest expense, are taken into consideration. Since fees paid by foreign subsidiaries are included in United States revenues, Canada and Other International operating income give effect to corresponding amounts deducted as expense. U.S. and Other International operating income also give effect to amounts charged by foreign subsidiaries to the U.S. under various agreements.

Foreign currency exchange gains (losses) are included in Other revenues—net in the consolidated statement of income. These gains (losses) are also included in Canada and Other International revenues and operating income in the above table as follows: 1979—$(2,830,000); 1978—$(1,135,000); 1977—$797,000; 1976 —$(42,000); and 1975—$1,496,000.

Identifiable assets applicable to each geographic area at December 31, 1979 and 1978, respectively, are as follows: United States—$1,907,710,000 and $1,618,799,000; Canada—$207,338,000 and $176,785,000; and Other International—$238,958,000 and $157,905,000.

Income taxes

The provision for income taxes consists of the following:

	1979	1978	1977	1976	1975
					(In thousands of dollars)
Current:					
U.S. federal	$101,086	$109,790	$ 96,267	$ 76,785	$ 60,612
State	17,586	17,627	14,987	11,673	9,460
Foreign	11,603	8,993	7,216	5,537	2,766
	130,275	136,410	118,470	93,995	72,838
Deferred:					
U.S.	22,270	10,527	9,394	10,623	10,782
Foreign	3,355	3,219	2,236	1,706	1,395
	25,625	13,746	11,630	12,329	12,177
	$155,900	$150,156	$130,100	$106,324	$ 85,015

The consolidated income tax provision is reconciled in the following table with amounts computed by applying the applicable statutory United States federal income tax rate (46% for 1979 and 48% for other years) to income before income taxes.

	1979	1978	1977	1976	1975
					(In thousands of dollars)
Tax at statutory rate	$158,474	$150,156	$128,062	$103,442	$ 82,472
State income taxes, net of related federal income tax benefit	11,223	9,886	8,348	6,615	5,365
Investment tax credits	(15,000)	(11,000)	(6,627)	(4,510)	(4,800)
Other items (each less than 5% of tax at statutory rate)	1,203	1,114	317	777	1,978
Consolidated tax provision	$155,900	$150,156	$130,100	$106,324	$ 85,015

Deferred income taxes, computed on the net change method, relate to the tax effect of differences between taxable income and income reported in the financial statements, as follows:

	1979	1978	1977	1976	1975
					(In thousands of dollars)
Additional tax depreciation	$16,983	$ 8,517	$ 6,414	$ 6,345	$ 7,397
Capitalized costs which are expensed for tax purposes	4,675	3,951	2,581	1,510	2,449
Other	3,967	1,278	2,635	4,474	2,331
Total deferred tax provision	$25,625	$13,746	$11,630	$12,329	$12,177

Property and equipment

Property and equipment consists of the following at December 31, 1979 and 1978:

	1979	1978
		(In thousands of dollars)
Land	$ 472,135	$ 394,229
Buildings and improvements on owned land	881,811	726,380
Buildings on leased land and leasehold improvements	493,576	379,884
Equipment and signs for restaurants	323,324	250,788
Furniture, fixtures and other equipment	38,246	32,430
Property under capital leases	122,778	124,885
	2,331,870	1,908,596
Less accumulated depreciation and amortization:		
Owned property	338,496	265,114
Property under capital leases	48,437	45,709
	386,933	310,823
Net property and equipment	$1,944,937	$1,597,773

Real estate taxes and rents capitalized for the last five years are as follows: 1979—$2,800,000; 1978—$2,500,000; 1977—$2,200,000; 1976—$1,400,000; and 1975—$1,900,000.

Depreciation and amortization expense, including amortization of property under capital leases, for the last five years is as follows: 1979—$91,712,000; 1978—$75,374,000; 1977—$62,124,000; 1976—$51,429,000; and 1975—$43,824,000.

For additional information related to property under capital leases, refer to the "Lease of properties owned by others" section.

Intangible assets, net

The Company has reacquired certain unlimited term territorial franchise and operating rights. The Company has also reacquired limited term franchise rights in conjunction with the purchase of restaurant businesses. Set forth below is the composition of intangible assets at December 31, 1979 and 1978.

	1979	1978
	(In thousands of dollars)	
Unlimited term franchise rights, not being amortized	$13,599	$13,599
Unamortized costs of other franchise rights:		
Limited term	51,763	26,302
Unlimited term	2,757	2,849
Other intangible assets	1,730	873
	$69,849	$43,623

Debt financing and dividend restrictions

☐ **Short-term borrowings**

Short-term notes payable to banks averaged $26,400,000 during 1979 and $20,000,000 during 1978 based on month-end balances, with maximum month-end balances during 1979 and 1978 of $34,300,000 and $27,500,000, respectively. The average interest rate on the loans outstanding at December 31, 1979 and 1978, was 14.2% and 10.4%, respectively. The monthly weighted average interest rate was 11.2% during 1979 and 9.3% during 1978. At December 31, 1979, the Company and certain of its subsidiaries have unused bank lines of credit available for short-term borrowing, with interest rates ranging from 11.5% to 16.5%, in the aggregate amount of $16,000,000. In connection with certain of these lines, and with short-term borrowings of a 50% owned domestic affiliate, the Company has informally agreed to maintain average compensating balances (not material) which are not restricted as to withdrawal.

☐ **Long-term debt and dividend restrictions**

Long-term debt, other than obligations under capital leases, consists of the following at December 31, 1979 and 1978:

	1979	1978
	(In thousands of dollars)	
Mortgage notes, 5.5% to 10.5%	$175,671	$186,413
Revolving credit notes	48,000	85,000
Short-term notes supported by bank credit agreements, 12.5% to 14.4%	127,000	
Installment notes, 6.75% to 10.25%	153,332	161,080
Promissory notes	94,175	14,945
Sinking fund notes:		
8⅝%, due 1988	79,655	89,473
10¼%, due 1989	50,000	
Serial notes	70,228	72,677
9⅝% notes, due 1982	59,895	59,858
Other domestic and foreign borrowings	17,853	19,212
	$875,809	$688,658

Mortgage notes mature at various dates through 1997. At December 31, 1979, land, buildings and improvements with an aggregate net book value of approximately $327,000,000 were mortgaged under these obligations.

The Company has three long-term lines of credit consisting of two revolving credit agreements of $75,000,000 and $85,000,000 and a bank credit agreement of $15,000,000. These agreements continue indefinitely unless terminated by the participating banks upon advance notice of at least 18 months. Notes issued under these agreements are repayable in 15 to 18 months and bear interest at the agent banks' prime rate (15% at December 31, 1979 and 11.75% at December 31, 1978). The revolving credit agreements provide for a commission of ½% per annum on the daily unused portion of the total commitment, which may be reduced by the Company at any time. Short-term notes of $127,000,000 at December 31, 1979, equivalent to the amounts of the unused credit lines at that date, have been classified with long-term debt as the Company intends to refinance these short-term obligations on a long-term basis. The credit agreements restrict the payment of cash dividends and the repurchase of capital stock by the Company. Consolidated retained earnings not restricted total $214,145,000 at December 31, 1979.

The installment notes mature over various terms through 1997. Notes in the amount of $62,371,000 are subject to an interest rate adjustment in 1986 or 1987 at the option of the note holders. In the event of such adjustment, the Company may, in the following year, redeem all or a portion of these notes at face value.

Promissory notes outstanding at December 31, 1979, include $20,175,000 of 6% industrial revenue bonds due in 1990 and $74,000,000 of other notes due in 1981 and 1982, with interest rates ranging from 7.9% to 15.25% (7.625% to 8.5% in 1978).

The 8⅝% sinking fund notes require annual redemptions of $10,000,000. An additional $10,000,000 may be redeemed each year at the option of the Company. The 10¼% sinking fund notes have the same provisions as the 8⅝% notes except that the mandatory and optional redemptions begin October 1, 1985. The 8⅝% notes are shown net of unamortized discount of $345,000 in 1979 and $427,000 in 1978.

Serial notes in the amount of $2,500,000 (8.7%) are due May 1, 1981. The remaining notes with a face amount of $68,000,000 (9%) are due in 1985.

Under the indentures covering certain of the Company's debt, the Company and its subsidiaries are required to maintain stated ratios of net book value of stipulated real property to the principal amount of the outstanding notes, and of net book value of property and equipment to funded debt. If these and certain other conditions are not met, the Company may be required to deliver first mortgages as security for the debt. The indentures also require, for the preceding 12-month period, minimum earnings coverage of interest and rental expense and a minimum ratio of working capital generated from operations to funded debt at the end of the period.

Aggregate maturities of long-term debt for the five years ending after December 31, 1979, are as follows: 1980—$40,094,000; 1981—$231,090,000; 1982—$149,670,000; 1983—$33,720,000; and 1984—$31,870,000. Although the Company's long-term credit agreements continue indefinitely, $175,000,000 of related notes are included in the 1981 maturities as this is the earliest time at which the banks can terminate the agreements.

Lease of properties owned by others

☐ **Description of leasing arrangements**

At December 31, 1979, the Company was lessee under ground leases (the Company leases the land and erects and owns the buildings) or improved leases (lessor owns the land and buildings), covering approximately 2,350 restaurant sites. Lease terms are generally for 20 to 25 years and in many

cases, provide for one or more five-year renewal options. The Company is generally obligated for the cost of property taxes, insurance and maintenance. Other leases are principally for office space and equipment.

☐ Capital leases

The Company was lessee under 1,460 improved leases at December 31, 1979. The building portions of 980 of such leases are capital leases. Future minimum rental payments related to the capitalized portion of improved leases in effect at December 31, 1979, are as follows:

	(In thousands of dollars)
1980	$ 13,604
1981	13,441
1982	13,154
1983	12,868
1984	12,515
Thereafter	135,162
Total minimum payments	200,744
Less imputed interest	106,281
Present value of minimum rental payments	94,463
Less current maturities at December 31, 1979	4,149
Long-term obligations at December 31, 1979	$ 90,314

☐ Operating leases

At December 31, 1979, the Company was lessee under non-cancellable operating leases with terms in excess of one year covering (1) land related to 890 ground leases, (2) land related to 980 improved leases in which the building portion is capitalized, (3) land and buildings related to 480 improved leases in which the building portion is not capitalized, (4) land for additional parking, and (5) other property, principally office space and equipment. Future minimum lease payments related to these operating leases at December 31, 1979, are as follows:

	Restaurant	Other	Total
			(In thousands of dollars)
1980	$ 43,700	$ 6,600	$ 50,300
1981	43,700	5,500	49,200
1982	43,600	3,800	47,400
1983	43,500	1,900	45,400
1984	43,200	1,200	44,400
Thereafter	480,800	7,300	488,100
	$698,500	$26,300	$724,800

☐ Rent expense

Rent expense as shown in the consolidated statement of income includes percentage rentals based on sales of the related restaurants in excess of minimum rentals stipulated in certain of the capital and operating lease agreements as follows: 1979—$3,502,000; 1978—$2,918,000; 1977—$2,764,000; 1976—$2,177,000; and 1975—$1,826,000.

Rent expense included in general, administrative and selling expenses in the consolidated statement of income amounted to $10,863,000 in 1979, $7,937,000 in 1978, $7,587,000 in 1977, $5,707,000 in 1976, and $5,217,000 in 1975.

Franchise arrangements

Franchise arrangements generally provide for location and license fees and continuing payments to the Company based upon a percentage of sales, with a minimum payment. Among other things, the franchisee is provided the use of both land and building for a period of 20 years and is required to pay property taxes, insurance and maintenance.

As of December 31, 1979, the book value of assets related to franchised restaurant locations was $1,059,000,000, including land of $291,000,000, after accumulated depreciation and amortization of $158,000,000.

Revenues from franchised restaurants for the five years ended December 31, 1979, with minimum payments summarized based upon the Company's real estate interest, consist of:

	1979	1978	1977	1976	1975
					(In thousands of dollars)
Minimum payments					
Owned sites	$100,596	$ 85,586	$ 68,933	$ 54,831	$ 42,223
Leased sites	68,403	59,418	49,006	40,610	35,420
	168,999	145,004	117,939	95,441	77,643
Percentage payments	243,229	203,188	164,344	133,384	103,720
Location and license fees	4,409	4,736	4,490	4,399	3,800
	$416,637	$352,928	$286,773	$233,224	$185,163

Future minimum payments to the Company required after December 31, 1979, under franchise arrangements are as follows:

	Owned sites	Leased sites	Total
			(In thousands of dollars)
1980	$ 115,700	$ 74,600	$ 190,300
1981	115,100	73,800	188,900
1982	113,300	72,000	185,300
1983	111,800	70,700	182,500
1984	111,500	70,200	181,700
Thereafter	1,247,200	699,900	1,947,100
	$1,814,600	$1,061,200	$2,875,800

Other commitments and security deposits

The Company has guaranteed the payment of loans relating to certain 50% or less owned affiliates and others. Such loans outstanding at December 31, 1979, on which the Company is guarantor approximated $41,000,000. The Company has also entered into a working capital maintenance agreement with lenders to an affiliate, which provides that the Company will take any and all action as may be necessary for the affiliate to pay its debts promptly. At December 31, 1979, the affiliate had total assets of $61,642,000 and obligations of $65,809,000 (including $54,934,000 to the lenders under the agreement).

Commitments to acquire property, certain of which are contingent upon future events, and contractual obligations to complete restaurants under construction at December 31, 1979, amounted to approximately $60,000,000.

At December 31, 1979, security deposit refunds which will become due for all years through 1984 approximate $7,800,000. Refunds payable for the individual years 1985 through 1999 range from approximately $1,600,000 to $5,200,000.

Capital stock and additional paid-in capital

A summary of changes in common stock issued and additional paid-in capital during 1979 and 1978 follows:

	Common stock		Additional paid-in capital
	Shares	Amount	
			(In thousands of dollars)
Balance at January 1, 1978	40,545,199	$4,509	$90,353
Exercise of stock options	54,106	6	1,930
Other changes			201
Balance at December 31, 1978	40,599,305	4,515	92,484
Exercise of stock options	6,466		238
Other changes			786
Balance at December 31, 1979	40,605,771	$4,515	$93,508

At December 31, 1979, a maximum of 2,488,754 shares of common stock were reserved for issuance under stock option plans.

The Company purchased 320,400 shares of its common stock on the open market in 1979, and 30,600 shares in 1978 in connection with the 1975 Stock Option Plan. During 1979 and 1978, 7,353 and 56,288, respectively, of these shares were issued in connection with the exercise of stock options.

Series preferred stock authorized for issuance totals 300,000 shares. No shares were issued or outstanding at December 31, 1979 or 1978.

Stock options and incentive plan

The Company adopted stock option plans in 1973 and 1975. In 1979 the stockholders approved an amendment to the 1975 plan reserving an additional 750,000 shares for issuance under the plan. Options to purchase a total of 2,095,347 shares under the 1975 plan may be granted to officers and key employees at prices not less than the fair market value of the stock at dates of grant. The plan terminates on May 4, 1980, but may be terminated earlier by the Board of Directors without affecting options then outstanding. The 1973 plan terminated on May 14, 1978, and no further grants can be made thereunder.

Certain options under the 1973 plan are qualified options under the Internal Revenue Code. These options became exercisable cumulatively, commencing on date of grant, in five equal annual installments. All qualified options expire five years from date of grant.

Non-qualified options granted under the 1973 and 1975 plans become exercisable cumulatively in five equal biennial installments commencing one year from date of grant and expire ten years from the date of grant.

The Option Committee has the authority to cancel outstanding qualified and non-qualifed options with the consent of the optionee and to grant new non-qualified options in substitution therefor.

Information as to options at December 31, 1979 and 1978, and for the years then ended follows:

	1979		1978	
	Option price per share	Number of shares	Option price per share	Number of shares
At December 31:				
Options outstanding—				
Qualified	$54	2,000	$54	2,000
Non-qualified	$42 to $51	2,174,680	$42 to $54	1,508,254
Options exercisable	$42 to $54	480,425	$42 to $54	389,949
Shares reserved for future grants		312,074		264,714
Option activity during the year:				
Granted	$49	772,045	$45 to $51	58,891
Forfeited	$42 to $54	91,800	$42 to $72	89,550
Exercised	$42 to $46	13,819	$42 to $46	110,394

For options exercised under the 1973 plan, stock was issued from authorized but unissued shares of the Company. For options exercised under the 1975 plan, stock was issued from shares previously reacquired by the Company on the open market. The difference between the amount received per share and (1) the stated per share amount in the common stock account or (2) the cost of treasury shares is recorded in additional paid-in capital. No amounts are included in the consolidated statement of income in accounting for the options. Any income tax benefits realized by the Company are credited to additional paid-in capital.

The Company adopted an incentive plan in 1978 whereby performance units and stock appreciation rights can be granted to recipients of stock options. The value of such performance units and stock appreciation rights is dependent upon the Company's operating results and the market value of its stock, with stipulated maximum amounts. Generally, the performance units and stock appreciation rights are exercisable when the related stock options become exercisable. Amounts charged to costs and expenses related to the incentive plan are $303,000 in 1979 and $814,000 in 1978.

Net income per share

Net income per share is computed based on the average number of common and common equivalent shares (issuable under dilutive stock options) outstanding during each year (40,295,394 in 1979; 40,667,465 in 1978; 40,565,959 in 1977; 40,518,965 in 1976; and 40,376,193 in 1975).

Profit sharing plan

The Company and its domestic subsidiaries have a trusteed savings and profit sharing plan covering all employees who have attained 25 years of age and have one year of eligible service, as defined. Company contributions are determined by the Board of Directors and are limited to the maximum amount deductible for federal income tax purposes. Amounts contributed are as follows: 1979—$11,109,000; 1978—$9,257,000; 1977—$7,500,000; 1976—$4,900,000; and 1975—$3,150,000.

Replacement cost information (unaudited)

The Company is reporting replacement cost information which will be included in its 1979 Form 10-K Annual Report to the Securities and Exchange Commission. In the future, replacement cost information will no longer be furnished, as the SEC has rescinded the requirement for those companies providing current cost information under Statement of Financial Accounting Standards No. 33. The Company intends to provide current cost information in its 1980 Annual Report to Stockholders.

Quarterly results (unaudited)

The following is a summary of selected quarterly financial data for the years ended December 31, 1979 and 1978:

	Quarter ended							
	December 31		September 30		June 30		March 31	
	1979	1978	1979	1978	1979	1978	1979	1978
Revenues—	*(In thousands of dollars, except per share amounts)*							
Sales by Company-owned restaurants	$395,690	$329,037	$399,702	$349,056	$378,178	$332,971	$321,646	$279,557
Revenues from franchised restaurants	108,468	92,033	113,360	96,544	106,243	90,121	88,566	74,230
Other revenues—net	6,134	5,584	6,545	5,909	5,069	7,413	8,334	9,436
Total revenues	510,292	426,654	519,607	451,509	489,490	430,505	418,546	363,223
Costs and expenses—								
Company-owned restaurants	335,963	277,318	329,065	284,969	308,879	273,674	273,426	236,582
Expenses directly applicable to revenues from franchised restaurants	16,430	12,900	15,137	12,188	13,976	11,422	13,458	11,019
General, administrative and selling expenses	58,248	47,738	56,889	45,521	51,992	42,688	47,372	39,711
Interest expense	20,165	16,029	18,074	16,086	17,104	15,669	17,249	15,552
Total costs and expenses	430,806	353,985	419,165	358,764	391,951	343,453	351,505	302,864
Income before provision for income taxes	79,486	72,669	100,442	92,745	97,539	87,052	67,041	60,359
Provision for income taxes	35,327	34,161	45,354	44,795	44,380	41,866	30,839	29,334
Net income	$ 44,159	$ 38,508	$ 55,088	$ 47,950	$ 53,159	$ 45,186	$ 36,202	$ 31,025
Net income per share of common stock	$ 1.10	$ .95	$ 1.37	$ 1.18	$ 1.32	$ 1.11	$ .90	$ .77

Auditors' report

The Board of Directors and Stockholders
McDonald's Corporation

We have examined the accompanying consolidated balance sheets of McDonald's Corporation and subsidiaries at December 31, 1979 and 1978 and the related consolidated statements of income, retained earnings and changes in financial position for each of the five years in the period ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of McDonald's Corporation and subsidiaries at December 31, 1979 and 1978 and the consolidated results of operations and changes in financial position for each of the five years in the period ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
February 7, 1980

Transfer agents

American National Bank and Trust Company of Chicago
33 North LaSalle Street
Chicago, Illinois 60690

The Royal Trust Company, Royal Trust Tower
Toronto Dominion Center
Toronto, Ontario, Canada

Registrars

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60690

Montreal Trust Company
15 King Street East
Toronto, Ontario, Canada

Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained from the Company at no charge. Direct your written requests to:

Chief Financial Officer
McDonald's Corporation
McDonald's Plaza
Oak Brook, Illinois 60521

McDonald's has quickly become one of the favorite places for Hong Kong's young people to gather and enjoy a meal or snack.


McDonald's
麥當勞

Information on the effects of changing prices—inflation (unaudited)

Basis of presentation

The Financial Accounting Standards Board (FASB), the organization that sets accounting and financial reporting standards, recently adopted experimental disclosure rules requiring the inclusion of certain information in annual reports of large publicly owned companies. The FASB Statement intends that these disclosures will provide information useful in assessing the effects of inflation on a business enterprise.

The following condensed financial statements compare the traditional historical cost-based financial statements with financial statements comprehensively adjusted for general inflation to reflect changes in the purchasing power of the dollar through December 31, 1979 (constant dollars at December 31, 1979). The FASB Statement requires that the effect of changes in purchasing power of the dollar be measured by the Consumer Price Index for All Urban Consumers (CPI-U), which is issued by the U.S. Department of Labor.

Property, equipment, intangible assets and related accumulated depreciation and amortization are adjusted to amounts equivalent to the dollar's purchasing power at December 31, 1979. Depreciation and amortization expense is adjusted in the same manner, applying the same depreciation methods and estimated lives used in the historical financial statements. Total adjusted depreciation and amortization expense for 1979 is $133,326,000, or $38,371,000 greater than the expense in the historical financial statements.

In reporting amounts adjusted for general inflation, all monetary balance sheet items are stated at the same amounts as in the historical financial statements. Inventories on a constant dollar basis approximate historical amounts. Other non-monetary assets and stockholders' equity are stated in constant dollars. All revenues and expenses, except depreciation and amortization and other amounts related to non-monetary items, are adjusted from average to year-end dollars. Provision for income taxes is also adjusted from average to year-end dollars. Income taxes have not been adjusted for increased depreciation and amortization expense on a constant dollar basis as the current tax regulations generally do not permit a deduction for this increase.

Condensed consolidated balance sheet

	December 31, 1979	
	Historical cost-as reported	Constant dollars-adjusted for general inflation
Assets:	(In thousands of dollars, except per share data)	
Current assets	$ 246,730	$ 247,400
Other assets and deferred charges	92,490	111,898
Property and equipment, at cost	2,331,870	3,245,534
Less—accumulated depreciation and amortization	386,933	634,760
Net property and equipment	1,944,937	2,610,774
Intangible assets, net	69,849	97,303
Total assets	$2,354,006	$3,067,375
Liabilities and stockholders' equity:		
Current liabilities	$ 274,307	$ 274,307
Long-term debt	966,123	966,123
Security deposits by franchisees	54,633	54,633
Deferred income taxes	106,777	106,777
Stockholders' equity	952,166	1,665,535
Total liabilities and stockholders' equity	$2,354,006	$3,067,375
Stockholders' equity per share	$ 23.69	$ 41.43

Condensed consolidated statement of income

	Year ended December 31, 1979	
	Historical cost-as reported	Constant dollars-adjusted for general inflation
Revenues:	(In thousands of dollars, except per share data)	
Sales by Company-owned restaurants	$1,495,216	$1,581,188
Revenues from franchised restaurants	416,637	440,593
Other revenues—net	26,082	22,396
Total revenues	1,937,935	2,044,177
Costs and expenses:		
Company-owned restaurants	1,247,333	1,338,934
Expenses directly applicable to revenues from franchised restaurants	59,001	75,251
General, administrative and selling expenses	214,501	230,335
Interest expense	72,592	76,766
Total costs and expenses	1,593,427	1,721,286
Income before provision for income taxes	344,508	322,891
Provision for income taxes	155,900	164,864
Net income	$ 188,608	$ 158,027
Net income per share	$ 4.68	$ 3.92
Purchasing power gain on net amounts owed		$ 133,753
Purchasing power gain on net amounts owed per share		$ 3.32

Condensed consolidated statement of changes in stockholders' equity

	Historical cost-as reported	Constant dollars-adjusted for general inflation
		(In thousands of dollars)
Balance at December 31, 1978, historical cost	$ 796,337	$ 796,337
Cumulative adjustment to year-end 1978 constant dollars to reflect general inflation, including purchasing power gain on net amounts owed		446,674
Balance at December 31, 1978 in year-end 1978 constant dollars		1,243,011
Adjustment of December 31, 1978 balance to reflect general inflation in 1979		165,408
Balance at December 31, 1978 in year-end 1979 constant dollars		1,408,419
1979 activity:		
Net income	188,608	158,027
Purchasing power gain on net amounts owed		133,753
Cash dividends	(20,516)	(21,696)
Purchase of treasury stock	(13,633)	(14,417)
Other	1,370	1,449
Balance at December 31, 1979	$ 952,166	$1,665,535

Selected additional financial data in year-end 1979 constant dollars—adjusted for general inflation

	1979	1978	1977	1976	1975
Year ended December 31:					
Total revenues in thousands of dollars	$2,044,177	$1,967,082	$1,781,121	$1,586,291	$1,387,160
Cash dividends declared per share	$ .54	$ .38	$ .19	$ .13	
At December 31:					
Market price per share	$ 43.38	$ 54.40	$ 63.62	$ 70.40	$ 80.70
Consumer Price Index	229.9	202.9	186.1	174.3	166.3

Commentary

The Company believes it has generally dealt effectively with inflationary pressures. While the accompanying data is intended to provide information about the impact of inflation on the Company, we believe that there may be limitations as to its meaningfulness in this regard because of the nature of the Company's operations relative to other companies and the differing effects of inflation on businesses. The following comments may be helpful in analyzing the data.

Sales by Company-owned restaurants and revenues from franchised restaurants principally relate to over-the-counter sales of food products to the public. Menu prices have generally been adjusted to compensate for inflationary cost increases.

In determining constant dollar net income, the FASB Statement requires that depreciation expense be adjusted for general inflation, but specifically prohibits adjusting net income for the purchasing power gain during the year on net amounts owed. For the current year, depreciation and amortization expense is increased by $38,371,000, but the purchasing power gain of $133,753,000 is excluded from constant dollar net income. The effect of inflation on property and equipment is inseparable from its effect on the debt used to finance such assets. The purchasing power gain on the debt is an economic benefit to the Company since, with inflation, the debt is paid back in cheaper dollars. Accordingly, we believe that all or a portion of this gain should be viewed as an adjustment of interest with a resultant increase in constant dollar net income, not as a direct increase in adjusted Stockholders' equity.

Substantially all existing restaurants conform to the Company's current designs and specifications, and restaurant equipment improvements are made on a continuing basis. Because the related property and equipment expenditures have largely been made in recent years and include substantial amounts for land, the increase in depreciation and amortization for constant dollar purposes is not as large as might be expected. For constant dollar purposes, the investment in property and equipment increases by $666 million, $188 million applicable to land, with a corresponding increase in Stockholders' equity.

One objective of the FASB Statement is to permit assessment of a company's ability to replace productive assets which will likely cost more in future years. In making this assessment about McDonald's, consideration must be given to franchise arrangements covering the majority of restaurants whereby the franchisees repair and maintain restaurant buildings which are included in Property and equipment in the accompanying Condensed consolidated balance sheet. Franchisees also spend substantial amounts improving and remodeling the restaurant buildings they operate. In addition, consideration must be given to the fact that land represents 25% of constant dollar productive assets, but is not likely to require significant replacement. Therefore, the constant dollar amount for productive assets in the Company's balance sheet should not be considered indicative of the level of future expenditures which the Company will be required to make to maintain the earning power of these assets.

In summary, the Company feels that its rapid inventory turnover, its menu price adjustments and its substantial property holdings, which are partially financed by debt repayable in cheaper dollars in inflationary times, have helped to cushion against inflation. Furthermore, as a result of the property holdings, Stockholders' equity per share on a constant dollar basis is $41.43 which is substantially greater than the $23.69 on a historical cost basis. However, it should be emphasized that the constant dollar amounts, which have not been adjusted for any future income tax effects, are based upon mechanical procedures prescribed by the FASB Statement and are not based upon appraisal or other traditional methods of valuation.

Management and locations

Directors

Ray A. Kroc
Founder, Senior Chairman of the Board

Richard J. Boylan
Senior Executive Vice President, Chief Financial Officer

Donald G. Lubin
Partner, Sonnenschein Carlin Nath & Rosenthal, Chicago

Gerald Newman
Executive Vice President, Chief Accounting Officer

Michael R. Quinlan
Senior Executive Vice President, Chief Operations Officer

Edward H. Schmitt
President, Chief Administrative Officer

Allen P. Stults
Honorary Chairman of the Board, American National Bank and Trust Company of Chicago

Robert N. Thurston
Executive Vice President, The Quaker Oats Company, Chicago

Fred L. Turner
Chairman of the Board, Chief Executive Officer

David B. Wallerstein
Business Consultant

June Martino
Honorary Director

Advisory directors
(Appointed by management)

George A. Cohon
President, Chief Executive Officer—Canada

Tom Dentice
Senior Vice President, Zone Manager

Patrick J. Flynn
Senior Vice President, Zone Manager

Walter Rettenwender
President, Managing Director—Germany

Officers

Norman D. Axelrad
Vice President

Clark Baldwin
Vice President

Steven J. Barnes
Executive Vice President

Robert M. Beavers, Jr.
Senior Vice President, Zone Manager

Frank Behan
Senior Vice President, Zone Manager

Roy T. Bergold, Jr.
Assistant Vice President

Louis S. Berman
Regional Vice President

Richard J. Boylan
Senior Executive Vice President, Chief Financial Officer

Charles W. Broadbent
Vice President

G. Brent Cameron
Executive Vice President

James R. Cantalupo
Vice President, Controller

Raymond S. Caruso
Vice President

Richard J. Christian
Regional Vice President

Burton D. Cohen
Assistant Vice President, Assistant Secretary, Assistant General Counsel

Robert T. Colvin
Regional Vice President

John D. Cooke
Senior Vice President

John L. Coons
Senior Vice President, Zone Manager

Tom Dentice
Senior Vice President, Zone Manager

Robert L. Desatnick
Vice President

Paul R. Duncan
Assistant Vice President, Assistant General Counsel

Thomas G. Fewster
Regional Vice President

Patrick J. Flynn
Senior Vice President, Zone Manager

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Patrick W. Kahler
President, McDonald's of Hawaii Management Corporation

Locations

Corporate Headquarters
McDonald's Corporation
McDonald's Plaza
Oak Brook, Illinois 60521
(312) 887-3200

Domestic offices
Albany, New York
Atlanta, Georgia
Augusta, Georgia
Boston, Massachusetts
Chattanooga, Tennessee
Chicago, Illinois
Cincinnati, Ohio
Cleveland, Ohio
Columbus, Ohio
Dallas, Texas
Dayton, Ohio
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Ft. Wayne, Indiana
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Hartford, Connecticut
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Milwaukee, Wisconsin
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25
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